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EXECUTIVE SECRETARIAT

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Remarks

STAT

Executive Secretary

17 May 85

Date

3637 (10-81)

United States Department of State

Washington, D.C. 20520

May 8, 1985

MEMORANDUM TO DISTRIBUTION LIST A

FROM: S/LPD - John D. Blacken

SUBJECT: Economic Sanctions Against Nicaragua

Enclosed are the following materials:

1. Talking points on the economic sanctions;
2. Talking Points on Nicaragua's Economic Crisis;
3. The statement announcing the imposition by the United States of economic sanctions against the Government of Nicaragua;
4. The Executive Order imposing the economic sanctions;
5. The notification to Congress of the economic sanctions;
6. "The Sandinista Economic Failure" - a short overview of how Sandinista policies have led Nicaragua into a severe economic crisis;
7. "The Nicaraguan Economy Five Years After the Revolution" - a more detailed report on the state of the Nicaraguan economy since the Sandinistas seized power in 1979;
8. Tables providing statistical information on the Nicaraguan economy.

ECONOMIC SANCTIONS - TALKING POINTS

-- The White House has announced the imposition of economic sanctions against Nicaragua under the International Emergency Economic Powers Act (IEEPA), the National Emergencies Act and other applicable legislation.

-- We will:

- declare a trade embargo, banning all imports into the U.S. of goods and services from Nicaragua and all exports of goods from the U.S. to Nicaragua;

- terminate air transportation to the U.S. by Nicaraguan air carriers and close our ports to all Nicaraguan flag vessels.

-- We are also notifying the Government of Nicaragua of the termination of our Treaty of Friendship, Commerce and Navigation.

-- We are taking these measures to help deal with the unusual and extraordinary threat created by the aggressive actions of the Government of Nicaragua in Central America.

-- Nicaragua's unceasing efforts to subvert its neighbors, its destabilizing military buildup, its close military ties to our adversaries, and its imposition of Communist, totalitarian rule constitute a clear threat to the security of Central America and therefore to the United States.

-- There has been no change in our basic policy toward Nicaragua. We do not seek a military solution or want to overthrow that country's government. We do require that Government make certain changes that we regard as essential for peace in Central America and for constructive relations between our two nations, specifically:

- o to halt its export of armed insurrection and subversion;

- o to end its military ties with Cuba and the Soviet Bloc and send home their military and security personnel;

- o to stop its arms buildup and help restore the regional military balance; and

- o to respect, in law and in practice, democratic pluralism and observance of full political and human rights in Nicaragua.

-- These are not goals we have set unilaterally. They are compatible with those which the Central American countries, including Nicaragua have agreed upon in the Contadora process as essential elements of resolving the conflict in the region.

-- We have repeatedly urged the Government of Nicaragua, publicly and in private bilateral contacts, to respect its 1979 promises to the OAS and its commitments to the 1983 Contadora Document of Objectives. To date the Sandinistas have ignored our appeals and those of their neighbors.

-- There has been a cumulation of Nicaraguan behavior, amounting to a serious threat to regional and U.S. security, and incompatible with normal commercial relations. The threat to our security and foreign policy has been heightened by Ortega's visit to Moscow. Our actions are necessary to signal Nicaragua that we will continue to apply pressure until they modify their behavior.

-- The announcement of Ortega's visit to Moscow, at the very time Congress was denying the Administration effective leverage to influence GON behavior, illustrates the Sandinistas' determination to move still closer to our adversaries and their belief tnat the U.S. lacks the resolve to respond effectively.

-- It is clear that last month's debate on Nicaragua in Congress and the country contributed to an increased awareness of Nicaragua's threatening behavior and obduracy to all appeals from its own citizens and other concerned governments. Both supporters and opponents of the President's policy called for economic sanctions.

-- The measures announced by the Administration have three main objectives:

- To underscore vividly and unmistakably our opposition to Sandinista policies;
- To maintain pressure on the Sandinistas as an inducement to change; and
- To signal friends and adversaries of our determination to resist subversion and protect our own security and that of our friends.

-- We are under no illusion that the new steps we have taken will, by themselves, bring about the changes on Nicaragua's part that we believe are essential for peace. The need remains, therefore, for the strong, direct pressure exerted on the Sandinistas by the Nicaraguan democratic resistance. The Administration intends to come back to Congress with recommendations for a resumption of U.S. support for the resistance.

-- We have again reiterated to the Government of Nicaragua our wish for a peaceful political resolution of the crisis in Central America; we have called on them again to accept the proposed dialogue with all elements of the opposition, to be held under Church auspices; and we have reiterated the President's April 4 proposal to assist that process, urging the Government of Nicaragua to reconsider its rejection of the opposition's proposal for dialogue and ceasefire. We strongly believe, consistent with the Contadora Document of Objectives, that such dialogue, leading to genuine reconciliation, is a requisite for peace in Nicaragua and the region as a whole.

-- We have told the Nicaraguans that we will lift the sanctions to be announced today if they will take concrete steps on the dialogue and/or other areas of major concern. We have also reiterated our support for the Contadora process.

-- In sum, this announcement is part of our overall effort to keep the pressure on Nicaragua to bring about changes that will help the peace process in Central America.

#2640C

ECONOMIC SANCTIONS AGAINST NICARAGUA

The President has ordered the imposition by the United States of economic sanctions against the Government of Nicaragua under authority granted by the International Emergency Economic Powers Act and other authorities. The sanctions include a total embargo on trade with Nicaragua, notification of U.S. intent to terminate its Treaty of Friendship, Commerce, and Navigation with Nicaragua, and the suspension of service to the United States by Nicaraguan airlines and Nicaraguan flag vessels. A report on these actions is being sent today to the Congress.

The President authorized these steps in response to the emergency situation created by the Nicaraguan Government's aggressive activities in Central America. Nicaragua's continuing efforts to subvert its neighbors, its rapid and destabilizing military buildup, its close military and security ties to Cuba and the Soviet Union, and its imposition of Communist totalitarian internal rule have been described fully in the past several weeks. Since the House of Representatives failed to act on the President's peace initiative, there have been further indications of this disturbing trend:

- the new ties between Nicaragua and the Soviet Union announced by TASS in connection with Daniel Ortega's current trip to Moscow;
- the recent apprehension in Honduras of seven agents of the Nicaraguan state security service, who admitted that they had travelled to Honduras from Nicaragua in order to aid and assist Honduran insurgents;
- delivery last week to Nicaragua by the Soviet Union of additional MI-8/17 helicopters;
- the delivery last week by East Germany of a large shipment of military transport equipment to Nicaragua; and
- the rejection by Nicaraguan leaders of any possible church-mediated dialogue with the democratic opposition of Nicaragua.

These events and the recent Nicaraguan rejection of the President's peace initiative, viewed in the light of the constantly rising pressure that Nicaragua's military buildup places on the democratic nations of the region, makes clear the

urgent threat that Nicaragua's activities represent to the security of the region, and, therefore, to the security and foreign policy of the United States. The activities of Nicaragua, supported by the Soviet Union and its allies, are incompatible with normal commercial relations.

During the month-long debate on U.S. policy toward Nicaragua, many Members of Congress, both supporters and opponents of the Administration's proposals, called for the early application of economic sanctions. It should be understood, however, that the President does not consider the imposition of these sanctions to be a substitute for U.S. assistance to the unified democratic opposition.

The Administration has long made clear that changes in Sandinista behavior must occur if peace is to be achieved in Central America. In making this announcement, the President again calls on the Government of Nicaragua:

- to halt its export of armed insurrection, terrorism, and subversion in neighboring countries;

- to end its extensive military relationship with Cuba and the Soviet Bloc and remove their military personnel;

- to stop its massive arms buildup and help restore the regional military balance; and

- to respect, in law and in practice, democratic pluralism and observance of full political and human rights in Nicaragua.

The Administration has repeatedly urged the Government of Nicaragua to respect its 1979 commitments to the OAS and more recently to the 1983 Contadora Document of Objectives, whose terms closely parallel our own basic objectives. Heretofore the Sandinistas have ignored or rejected all such appeals. The American Embassy in Managua has just renewed with the Government of Nicaragua the President's strong endorsement for internal dialogue and reiterated his firm intention to pursue U.S. interests and national objectives in Central America. In this regard, it should be noted that the measures being instituted by the President are easily rescinded if Nicaragua acts to relieve our concerns.

The President remains convinced that the church-mediated dialogue between the Government of Nicaragua and the unified democratic opposition, as called for by the resistance on March 1 and in the President's April 4 peace proposal, could make a major contribution to resolution of conflict in the region. The

President continues to believe that direct pressure presents the only effective means of moderating Nicaraguan behavior and is using the means available to him toward that end. He urges all members of the Congress to support future requests for assistance to the Nicaraguan democratic resistance. He has also made it clear that the embargo does not apply to those goods destined for the organized democratic resistance. Nor will it apply to donations of articles such as food, clothing, and medicine intended to be used to relieve human suffering.

In the meantime, U.S. application of these measures should be seen by the Government of Nicaragua, and by those who abet it, as unmistakable evidence that we take seriously the obligation to protect our security interests and those of our friends. The President calls again on the Government of Nicaragua to address seriously the concerns of its neighbors and its own democratic opposition and to honor its solemn commitments to non-interference, non-alignment, respect for democracy, and peace. Failure to do so will only diminish the prospects for a peaceful settlement in Central America.

EXECUTIVE ORDER

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PROHIBITING TRADE AND CERTAIN OTHER TRANSACTIONS INVOLVING NICARAGUA

By the authority vested in me as President by the Constitution and laws of the United States of America, including the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.), the National Emergencies Act (50 U.S.C. 1601 et seq.), chapter 12 of Title 50 of the United States Code (50 U.S.C. 191 et seq.), and section 301 of Title 3 of the United States Code,

I, RONALD REAGAN, President of the United States of America, find that the policies and actions of the Government of Nicaragua constitute an unusual and extraordinary threat to the national security and foreign policy of the United States and hereby declare a national emergency to deal with that threat.

I hereby prohibit all imports into the United States of goods and services of Nicaraguan origin; all exports from the United States of goods to or destined for Nicaragua, except those destined for the organized democratic resistance, and transactions relating thereto.

I hereby prohibit Nicaraguan air carriers from engaging in air transportation to or from points in the United States, and transactions relating thereto.

In addition, I hereby prohibit vessels of Nicaraguan registry from entering into United States ports, and transactions relating thereto.

The Secretary of the Treasury is delegated and authorized to employ all powers granted to me by the International Emergency Economic Powers Act to carry out the purposes of this Order.

The prohibitions set forth in this Order shall be effective as of 12:01 a.m., Eastern Daylight Time, May 7, 1985, and shall be transmitted to the Congress and published in the Federal Register.

Ronald Reagan

THE WHITE HOUSE,

May 1, 1985.

TO THE CONGRESS OF THE UNITED STATES:

Pursuant to section 204(b) of the International Emergency Economic Powers Act, 50 U.S.C. 1703, I hereby report to the Congress that I have exercised my statutory authority to declare a national emergency and to prohibit: (1) all imports into the United States of goods and services of Nicaraguan origin; (2) all exports from the United States of goods to or destined for Nicaragua except those destined for the organized democratic resistance; (3) Nicaraguan air carriers from engaging in air transportation to or from points in the United States; and (4) vessels of Nicaraguan registry from entering into United States ports.

These prohibitions will become effective as of 12:01 a.m., Eastern Daylight Time, May 7, 1985.

I am enclosing a copy of the Executive Order that I have issued making this declaration and exercising these authorities.

1. I have authorized these steps in response to the emergency situation created by the Nicaraguan Government's aggressive activities in Central America. Nicaragua's continuing efforts to subvert its neighbors, its rapid and destabilizing military buildup, its close military and security ties to Cuba and the Soviet Union and its imposition of Communist totalitarian internal rule have been described fully in the past several weeks. The current visit by Nicaraguan President Ortega to Moscow underscores this disturbing trend. The recent rejection by Nicaragua of my peace initiative, viewed in the light of the constantly rising pressure that Nicaragua's military buildup places on the democratic nations of the region, makes clear the urgent threat that Nicaragua's activities represent to the security of the region and, therefore, to the security and foreign policy of the United States. The activities of Nicaragua, supported by the Soviet Union and its allies, are incompatible with normal commercial relations.

2. In taking these steps, I note that during this month's debate on U.S. policy toward Nicaragua, many Members of Congress, both supporters and opponents of my proposals, called for the early application of economic sanctions.

3. I have long made clear that changes in Sandinista behavior must occur if peace is to be achieved in Central America. At this time, I again call on the Government of Nicaragua:

- o to halt its export of armed insurrection, terrorism, and subversion in neighboring countries;
- o to end its extensive military relationship with Cuba and the Soviet Bloc and remove their military and security personnel;
- o to stop its massive arms buildup and help restore the regional military balance; and
- o to respect, in law and in practice, democratic pluralism and observance of full political and human rights in Nicaragua.

4. U.S. application of these sanctions should be seen by the Government of Nicaragua, and by those who abet it, as unmistakable evidence that we take seriously the obligation to protect our security interests and those of our friends. I ask the Government of Nicaragua to address seriously the concerns of its neighbors and its own opposition and to honor its solemn commitments to non-interference, non-alignment, respect for democracy, and peace. Failure to do so will only diminish the prospects for a peaceful settlement in Central America.

Ronald Reagan

THE WHITE HOUSE,

May 1, 1985.

THE SANDINISTA ECONOMIC FAILURE

Sandinista policies, which have consistently emphasized Marxist ideology over economic realities, have thrown Nicaragua into a severe economic crisis. Nicaragua was a productive agricultural country with approximately 3 million inhabitants and more than 29 million acres of land. Since the 1979 revolution, the Sandinista government has sought to implement a marxist state-controlled economy, while using rhetoric claiming to favor a mixed economy and a pluralistic society.

After five years of Sandinista rule, the facts speak for themselves. The Government of Nicaragua in the tradition of its mentor, Cuba, has secured effective control of the economic life of the country. Immediately after the revolution, it took control of 40 percent of the economy by nationalizing all the Somoza holdings as well as entire industries such as banking and export marketing firms. To increase their share since then, the Sandinistas have used a variety of ideologically motivated means such as confiscation, limitation of access to credit, and wage and price controls. Although nominally half the economy remains in the private sector, even that part is tightly controlled by the government. As Comandante Bayardo Arce put it, "any investment project in our country belongs to the state. The bourgeoisie no longer invests--it subsists."

Anti-Private Sector Policies

Sandinista policies and regulations have stifled the private sector and have been powerful disincentives to production. The Sandinistas have not respected private property; they have confiscated whatever firms or lands they pleased, often merely to punish opponents. They imposed price controls which made impossible a reasonable profit for producers, thus discouraging production. They have required farmers to sell their products to the government at prices so low that many small producers have been driven completely out of business. They have used their control of banks, financing, and interest rates to squeeze out the private sector and for political purposes. The percentage of loans to the private sector dropped from 70 percent in 1978 to only 10 percent in 1984.

Nationalization of all export marketing and stringent controls over access to foreign exchange has thwarted businessmen trying to develop Nicaragua's export crops. High taxes imposed by the Sandinistas (the highest in Central America) ensure slow economic strangulation of private enterprise. These policies, coupled with the repressive political climate created by the Sandinistas, have caused many of Nicaragua's business executives, managers, farmers, and professionals to become disillusioned and go into exile.

Impact of Militarization

As early as February 1981, the FSLN announced that it would build a 200,000-man militia (almost 10 percent of the population). Today the government admits to spending 40 percent of the budget on the military. Regimentation of the society has also had disruptive effects on the economy. For example, the obligatory military service has diverted human resources from production to the military. The impact of militarization of the society cannot be accurately quantified, but it is reflected in the areas of transportation, communication, and education. Fear of conscription into the Sandinista army has affected labor discipline, with many young, able-bodied workers and students fleeing the country or hiding from the authorities.

Economic Decline and Inflation

Sandinista policies have led to economic decline and have created unprecedented hardships for the average Nicaraguan. The gross domestic product is 14 percent below pre-revolutionary levels. The budget deficit is more than 20 percent of the gross domestic product and growing. National savings is only about 1 percent of the gross domestic product, one of the lowest rates in the world. Inflation in the price of many food staples has reached 200-300 percent and continues to climb. Wages, first frozen by the government in 1981, have plummeted in real terms. Lower and middle class families are unable to maintain even their low standards of living. Basic consumer goods that previously were readily available to the public have now become scarce, and the long lines typical of Eastern Europe have become commonplace. Numerous products are now being rationed through a system administered by Sandinista "block committees."

Debilitating Controls

The Sandinistas have moved to take over much of the distribution system and push out the private sector. As in other state-controlled economies, a black market has become active. Domestically produced goods such as meat, sugar, milk, and eggs are becoming scarce, and imported consumer goods are virtually nonexistent. Sandinista regulations restrict private citizens' access to foreign currency, and Nicaraguans wanting dollars must exchange their money on the black market for only 10 percent of its official value. To discourage people from leaving, the Sandinistas have set passport and exit visa fees so high that they are equal to nearly a full month's wages for the average Nicaraguan.

Loss of Credit Rating

Sandinista policies have made Nicaragua increasingly dependent on foreign handouts. Exports have declined 25 percent in nominal terms and 70 percent in real terms. In less than six years, the Sandinistas have tripled Nicaragua's foreign debt from $1.6 to $4.6 billion. Nicaragua has fallen in arrears on many of its debts and it is not considered creditworthy by commercial lenders.

Initially, Nicaragua received very favorable treatment from the international community, obtaining hundreds of millions of dollars a year from Western nations and multilateral financial institutions. As the Sandinistas have steered Nicaragua ever further toward communism, support from the West has been declining.

Role of the United States

From the time the Sandinistas took power in 1979 until 1981, the United States was the largest bilateral donor to Nicaragua, providing $118 million in economic and humanitarian assistance. The United States also supported Nicaragua in its dealings with multilateral financial institutions and private banks. For example, by 1983 the Sandinista government had received more than $250 million from multilateral development institutions to which the United States is the principal contributor.

Actions by the United States against the Nicaraguan economy have not been arbitrary or sweeping. We suspended government-to-government aid in 1981 only after the Sandinistas persisted, in spite of repeated warnings, in their support of armed insurgency in the region. Only in 1983, with the pattern of Sandinista destabilizing actions even more clearly established, did we reduce Nicaragua's sugar quota.

The Sandinistas made clear nearly six years ago that they were committed to a close security and economic relationship with the Soviet bloc, and Cuba. President Ortega's trip to Moscow is only the latest visible sign. The economic sanctions announced in early May cannot be blamed for pushing the Sandinistas into the Soviets' arms. By the same token, we have advised the Sandinistas that we are prepared to reexamine the sanctions at any time they take concrete steps toward a dialogue and other measures leading to genuine reconciliation, freedom, and peace in Nicaragua and the region as a whole.

#0817A

THE NICARAGUAN ECONOMY FIVE YEARS AFTER THE REVOLUTION

THE ECONOMY: THEN AND NOW

Nicaragua is the largest Central American nation in land area but has a population of only about 2.7 million people. It is one of the least developed countries of the region and is mainly an agricultural country. Gross Domestic Product (GDP) is $3.1 billion; in real terms, about 14% below 1978 levels. Nicaragua's key exports are coffee, cotton, sugar, meat, seafood products, bananas and gold; it has a small industrial sector based mainly on agricultural chemicals. Population and economic activity are concentrated on the Pacific coast.

When the Sandinistas took power after a year and a half of intense struggle, the economy was badly damaged. Capital flight and lost production amounted to as much as $1.5 billion; foreign exchange reserves were close to zero. The foreign debt at the end of 1979 was $1.6 billion. The budget deficit was over 7% of Gross Domestic Product (GDP). ECLAC, the UN's Economic Commission for Latin America and the Caribbean, estimated that the fighting had caused about $500 million in physical damage.

After five years in power, the Sandinista government is still struggling with the same problems, as well as some new ones created by their ideologically oriented policies. Output is 14 percent below pre-revolution levels. The foreign debt now stands at $4.6 billion, and Nicaragua is incapable of meeting its debt service obligations. The budget deficit is over 20 percent of GDP and growing. The trade gap has averaged about $350 million for the past five years. The Sandinistas rely on foreign assistance to bridge a $500 million balance of payments deficit.

Recent Government of Nicaragua (GON) economic statistics are not considered credible by many international observers and institutions. The Sandinistas claimed a 3 percent growth rate in 1983, but government officials admit that the standard of living declined. Even the official statistics reflect the visible decline in living standards. In real terms, overall non-military consumption per capita was off 3 percent in 1983, while real private consumption per capita fell by almost 8 percent. The GON attributed this decline to the effects of aggression, but increasingly the Nicaraguan people are beginning to question Managua's economic policies. And for the first time, the Sandinistas are admitting that they have made serious mistakes in managing the economy.

The year 1984 and the first quarter of 1985 have seen an acceleration in the economic decline of the country. Although hard figures are unavailable, both the coffee and cotton harvests for 1984/85 were significantly below projected levels, coffee possibly 30-40 percent and cotton at least 20 percent. Price inflation of many food staples has been 200-300 percent and these continue their upward climb. Real wages, on the other hand, have declined and lower and middle class families are unable to maintain even their relatively low standards of living.

Meanwhile, the Sandinistas have made no significant changes in any of their policies and programs to respond to the deteriorating situation or to retreat from the ongoing transformation to a Marxist style economy. Small price increases have been given to producers and unrealistically low wage raises granted to workers at all levels of the economy. Real prices for goods and services have risen owing to shortages unrelieved by these halfway measures. The GON 1984 budget was almost 10 billion cordobas in excess of receipts and 1985 looks even worse. Today the Sandinistas continue to ignore free market indicators in favor of controlled wages and prices. Oil from the Soviet Union, now their only regular supplier, and Soviet and Eastern European shipments of all kinds of foods, consumer goods, and industrial equipment have thus far prevented a total collapse of the economy as internal production declines.

FOREIGN ASSISTANCE

Nicaragua has received very favorable treatment from the international community since 1980 in assistance grants and loans. Even the generous amounts of aid received by the Sandinistas has not permitted a reactivation of the economy. Much of the assistance received has been in grant form or low-interest loans; yet the GON is unable to pay its bills and remains dependent on external resources to stay alive. Virtually all of their oil imports have been provided without payment.

At almost any time at least one Sandinista representative is abroad seeking economic aid. The Sandinistas generally have been successful in soliciting support although aid, particularly from Western Europe, has been falling off since 1983. Since taking power, they have been able to rely on donations -- primarily from Canada, Sweden, and the Soviet bloc -- for Nicaragua's entire wheat supply. France and Spain have also been helpful in certain areas of the economy. While other

nations under the San Jose Accord [1] were struggling to meet payment obligations for petroleum imports, Nicaragua was able to put off payments without losing its oil supply. Venezuela did cut off deliveries in mid-1982 when Nicaragua failed to make a payment, but Mexico took up the slack and turned a blind eye to Managua's failure to honor its obligations until August 1984. Since then, Mexico has been firmer about requiring payment and has limited shipment of crude. Mexico announced a cutoff to Nicaragua pending renegotiation of the oil debt which now stands at over $500 million.

The Soviet Union seems willing to take up part of the slack in aid. The Soviets, who beginning in 1984 provided roughly 70 percent of Nicaragua's oil needs, is now expected to supply nearly 100 percent either directly or through swap arrangements with other oil producing countries. However, on more than one occasion, the Soviets have made it clear that the Nicaraguans should continue to pursue economic ties with the West because the Soviets are not prepared to fully subsidize their policies as they do for Cuba.

Cuba has also helped Nicaragua, but at least part of its aid may be counterproductive. Despite currently depressed world prices for sugar and slim chances for increased world consumption in the foreseeable future, Cuba's largest international development project in Nicaragua is the $74.5 million Timal sugar refining complex near Managua. Operations at the mill reportedly must be subsidized by the GON. Cuba likely will remain willing to provide aid also in the form of Cuban-produced goods and technical assistance and doctors and teachers. However, pinched for foreign exchange itself, Cuba will not provide hard currency assistance. Many Nicaraguans believe that some manufactured goods, such as clothing, soap and some food products in short supply, are being exported to Cuba as barter payment for Cuban aid. This is not acknowledged by the GON.

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(1) The San Jose Accord, initiated in 1981, is an agreement whereby Mexico and Venezuela agreed to supply crude oil to nine Central American and Caribbean countries on a concessionary basis. When Mexico and Venezuela negotiated another one-year extension of the Accord in August 1984, they made the supply of crude conditional on strict compliance with the payment arrangements specified.

TRADE

Nicaraguan export earnings traditionally have been and continue to be based primarily on agricultural products. Coffee is the main export product, followed by cotton, sugar, and beef. Together, these four products make up approximately 70 percent of total exports. Export performance has been dismal, dropping 25 percent in nominal and 70 percent in real terms from 1978 to 1984. Private sector analysts dispute government claims that poor performance is a result of adverse world market prices and dislocations caused by the war. Instead, they blame Sandinista attacks on the private sector and GON fiscal priorities which have effectively denied them access to hard currency in order for them to purchase needed pesticides, insecticides, fertilizers and spare parts for machinery to keep production high. These Nicaraguan analysts believe many of the problems encountered in the private sector are part of a deliberate policy of the Sandinistas to build up the state sector of the economy at the expense of the private sector.

When the Central American Common Market [CACM] was functioning well, prior to the onset of regional strife, Nicaragua also had been able to develop some light industries. Until 1979, about one-half the export products of these industries went to CACM countries. In 1979, the percentage dropped to one-third. Since then, light industries have suffered declines every year ranging from 7 percent in 1981 to almost 25 percent in 1982. Since 1981, Nicaraguan trade with other CACM countries has steadily and sharply declined, according to IMF figures. Nicaragua has accumulated huge trade debts to its neighbors, owing Costa Rica almost $200 million and Guatemala over $100 million. Its total trade debt to its CACM partners is $400 million.

Nicaragua is actively trying to diversify its markets. Until April 1985 the United States continued to be one of Nicaragua's main trading partners, but its share of Nicaraguan trade declined since the revolution in favor of Mexico, the Middle East and the Soviet Bloc. Trade with Communist countries has been increasing since the revolution. The U.S. maintained its share of the Nicaraguan import market even as the market was shrinking overall. Nicaraguan exports to the U.S. declined by nearly half from 1983 to 1984. The Sandinistas have been moderately successful in obtaining supplier credit from sympathetic governments, but have increasingly turned to barter and countertrade agreements.

DEBT

Based on the most generous debt rescheduling terms given to any third world debtor, the Sandinistas were able to keep up with obligations to commercial banks on external debt until May 1983, when they failed to make a $40 million payment. Subsequently, foreign commercial bank creditors negotiated several payment reschedulings, but Nicaragua has been unable to meet these limited payments. Nicaragua is also in arrears to multilateral financial institutions. In late September 1984, the World Bank suspended credit to Nicaragua because of payment arrearages. The GON also has arrears to the Central American Bank [CABEI] and the UN system as well as to the USG and other governments.

PROBLEMS WITH ECONOMIC POLICY

Nicaraguan economic policy suffers from the overwhelming emphasis placed by the Sandinista leadership on ideology over economic realities. Many managers and professionals have fled in disillusionment with the present government. CONAPRO, the Nicaraguan National Association of Professionals, estimates 60 percent of managers and professionals in the country have left since 1979.

The Sandinistas have emphasized social programs in a political context where possible, to mobilize the population and to indoctrinate the people in Marxist ideology. The number of people included in the social security program has doubled, although agricultural workers are excluded. Improving general education has been a primary objective of the Sandinistas, particularly in rural areas. Large numbers of Cubans have assisted the government. Through its educational material, the GON has sought to instill Marxist ideology in the next generation of Nicaraguans. Many parents who are not Sandinistas, and the Catholic Church have objected to this process of "indoctrinal education". The Ministry of Education has total control over the curriculum in both private and public schools. For example, in church-run schools, the Ministry of Education does not allow regular class-time to be allocated to religious training. Moreover, government officials have recently discussed initiating military training for those eight years of age and above.

The Sandinistas are also proud of their accomplishments in health, where they have increased significantly the number of hospital beds and doctors. However, medical care has been handicapped increasingly by the flight of the country's best doctors and the severe shortage of foreign exchange to buy medicine and medical supplies. Consequently, while many

preventive medicine programs funded largely through United Nations agencies continue to make progress, other areas of medicine have declined sharply, with hospital care the hardest hit.

Consumer subsidies have been a major expense, equaling approximately 10 percent of GDP in 1983, and contributing to shortages and production declines. These subsidies were reduced in early 1985, but their sudden withdrawal has proven catastrophic to lower income families squeezed by inadequate wages.

The most damaging aspect of the Government's effort to control consumer costs is the low prices it pays producers, thereby discouraging production. According to Sandinista officials, 93 percent of basic food items are produced by small growers. Given the unreasonably low prices (and they are fined or jailed if they try to sell their produce privately), these small producers have basically withdrawn as much as possible from the market economy. Forced to produce at or below cost, they have limited production to their own immediate needs. This has brought about a reduction in the production of corn and beans, for example, of at least 50 percent. As might be expected, the shortages resulting from price fixing have led to hoarding and an active black -- or as some would prefer "free" market, -- with prices more clearly reflecting economic realities. This free market has been fought by the government, but without much success.

There is a general shortage of consumer items in Nicaragua. Imports are not available because of the foreign exchange shortage owing to poor export performance. Domestically produced goods are hampered by price controls, shortage of imported inputs, lack of investment, and state control of retailing and wholesaling operations for many basic goods.

Price controls and control of distribution started in 1979 and were gradually expanded until the present. The growing distortions and costliness of subsidy programs and price controls caused the Sandinistas to make some changes in 1985, but the structure remains in place. The control mechanism most widely used is the ration card which is issued by the CDS, i.e. block committee, which is controlled by the FSLN. Thus shortages are also converted into a means of political control. Gasoline is rationed at twenty gallons per month, and coupons are obtained at state banks. Families can go to the state-run Enabas commissaries to buy basic goods that are available every two weeks. Typically, there is poor quality sugar, rice, soap, edible oil, pasta, and spaghetti available;

less frequently available are beans, and eggs; and rarely, dried milk. Prices of these products, when available, are usually one-fourth the cost of comparable free market products. Vegetables such as potatoes, radishes and carrots which are not controlled by the state are in sufficient supply.

The Sandinistas' interest rate policy is yet another example of faulty economic decision making. Although inflation is at about 60 percent, the maximum interest a Nicaraguan can receive on a time deposit is 25 percent. Regular savings accounts bear much lower rates. Such severely negative real interest rates combined with the average Nicaraguan's distrust of the nationalized banking system have led to a savings rate of only 1 percent of GDP (1983), by far the lowest in Central America, which underlines the country's dependence on external savings and investment.

An overvalued exchange rate has been another damaging Sandinista economic policy. The GON has allowed the development of a three-tier exchange market system: an "official" rate of 10 cordobas to the U.S. dollar for some exports and most imports; a "special" rate of 15 cordobas per dollar for imports of certain capital goods; and a parallel rate of 28 cordobas per dollar for other transactions. The GON has progressively transferred transactions to the parallel rate as the other rates became more and more overvalued. On February 8, the GON adjusted the parallel rate to a maximum of 50 cordobas to the dollar; multiple rates up to that amount are being applied by the Central Bank to various categories of goods. This increasingly complex and unrealistic exchange rate policy has contributed to the severe shortage of foreign exchange. The "black" market rate of over 500 cordobas per U.S. dollar current today in Nicaragua may more accurately reflect the cordoba's true value.

ROLE OF THE PRIVATE SECTOR

The Sandinista government has consistently proclaimed that it wants to maintain a mixed economy. [2] Most confiscations

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(2) Victor Tirado Lopez, a member of the FSLN Directorate, gave the following definition of a mixed economy during a speech on February 10, 1985, "A mixed economy is one in which the state assumes a leading role because free enterprise and the private sector in themselves do not guarantee the people's welfare. They must be under the control of the state. Nicaragua has already experienced the free enterprise system. It brought us backwardness, misery, dependency, and a dictatorship."

occurred immediately after the revolution. Banks, insurance, mines, forestry, shipping, export marketing firms, and all of Somoza's holdings were taken over by the state. Also, numerous farms, businesses and industries of persons accused of being Somocistas were confiscated - all without due process. Since then, take-overs of property, including that of U.S. citizens, have been numerous but more gradual. The private sector today barely accounts for just over one half of total means of production.

However, even where the government does not have actual ownership, it controls so many aspects of the economy that private enterprise is severely constrained; the private sector has considerable difficulty obtaining loans and foreign exchange. The government-owned banks give preference to the public sector. For example, in 1983 the public productive sector received over six times as much credit as the larger private productive sector. High priority sectors get lower interest rates. Loans to private commercial enterprises carry the highest rates.

Fear of further nationalizations and the belief that the Sandinistas' Marxist orientation is designed to destroy the private sector has brought private investment to a virtual halt throughout the country. Businessmen fear that new onerous taxes and new regulations will be used to carry out further confiscations, or so increase the debt burden many private operations carry, that the government-owned banks and credit institutions can move in and take them over legally. What businessmen see is a Marxist economic structure which eventually drains the private sector of all economic vitality. If indeed the power to tax is the power to destroy, the Sandinistas have gone the old adage one better: they have managed to set controls in such a way as to ensure slow economic strangulation, particularly of the large export oriented cotton and coffee growers. Nicaraguan businessmen, both small and large, today believe that the Sandinista Government can, by regulation, punish its opponents whenever it wishes. Consequently, without a return to democratic pluralism and a respect for private property, there is little likelihood that the movement toward state control of the economy at all levels will not continue, despite the resistance of those fighting for a free market economy.

THE AGRICULTURAL SECTOR

Agricultural reform began with the seizure of Somoza's land holdings and numerous other farms after the revolution. The state took over their management and put the former tenant farmers on a wage system. However, an agrarian reform bill was

not passed until July 1981. Under the reform, all idle farms over 260 hectares were to be nationalized. Over 1,000,000 acres were confiscated and converted to state farms and cooperatives. This policy was initially popular with the peasants even though they did not get title to the land they farm. Today many people regard land confiscation as politically motivated and a means to punish opponents of the Sandinistas. The absence of clear title to lands "given" to many peasant families has brought the program into question. According to many observers, most of the best Somoza-held lands have not been distributed but turned into state farms which remain appendages of the Sandinista Government, ensuring control of both the land and the peasants who work it.

Nicaragua has excellent agricultural resources and was a food exporter until about 1977, but the GON has so discouraged its farmers with low prices, input shortages and "land reform" without titles, along with the new forced resettlement program in which an estimated 700,000 quintales (one quintal equals 100 pounds) of grain was abandoned when the campesinos were moved, that the country will be unable to feed itself again this year.

Food prices were raised sharply last year; in the first quarter of 1985 prices increased 200-300 percent, but a senior Sandinista official recently said the country will still have to beg for foreign food donations to cover rice and corn shortages. Even the plantain crop will be short. The cotton crop, one of Nicaragua's important foreign exchange earners, is 20 percent smaller than expected for 1985, and much of the coffee crop has been lost due to the absence of sufficient pickers, low prices, and transportation problems. Meat production is up (because of a 200 percent price increase), but the total number of cattle being raised is declining. Much of the meat, moreover, is moving into export channels and is not appearing in the Nicaraguan marketplace. Meat has become a thing of the past for virtually all lower income families; many in the middle class now eat meat only two or three times weekly.

Nicaragua is unlikely to get substantial increases in farm output until it scraps the so-called state cooperative farms that weaken incentives and encourages private farming through fair prices. Even then serious shortages of spare parts, fertilizers and other off-farm inputs will continue to hamper production. The GON has recently granted small price increases to producers, but its original program of forcing producers to sell to the government at arbitrary prices remains in place. Without a free market

economy, something which earlier made Nicaragua the largest food exporter in Central America, a reversal of this decline will not occur.

LABOR

The GON also has made wage control an integral part of its austerity program to reactivate the economy as well as regiment workers in the economy. The Ministry of Labor strictly limits wage increases and has directed pay raises toward the lowest salaried employees in order to correct the "unjust" salary structure inherited from the Somoza regime. In fact what has been eliminated is a free market mechanism which rewards skilled workers and managers. The result appears to be a trend toward the creation of a mass society at the lower end of the economic scale, and a flight abroad of qualified workers as well as ingenious methods within the private sector to attract and hold skilled workers by using fringe benefits. The Ministry claims that its control of wages promotes stability in the job market while eliminating wasteful competition among employers for skilled workers. The facts are the opposite. Inflation has destroyed real wages, forcing many workers to the brink of destitution and employers to risk legal sanctions in order to meet under-the-table demands or lose their best workers.

Seven major labor confederations operate in Nicaragua. The two largest are linked directly with, and are controlled by, the FSLN. Three others are Marxist organizations and have ties to Nicaragua's various Communist parties. Of the two remaining independent groups, one has a Christian Democratic orientation and the other is democratically oriented but not aligned with any political party. The Sandinista labor organizations maintain a high level of contact with sympathetic labor organizations abroad, in accordance with the FSLN's overall strategy of using every possible mechanism to promote international support for its revolution. The Sandinistas have offered Nicaragua as the venue for numerous international labor conferences.

The Sandinistas proclaim that the revolution was fought on behalf of the workers and peasants, and indeed the GON initially adopted policies that were heavily biased toward labor. Laws were enacted to protect workers' jobs and wages, and the government almost invariably sided with the workers in labor disputes. Sandinistas encouraged workers to denounce "bourgeois" businessmen who were attempting to decapitalize their firms and sanctioned plant takeovers by workers. These policies had the predictable effect of seriously eroding labor discipline and stimulating a rash of strikes and seizures of firms by the employees.

These policies also had the intended result of weakening the private enterprise sector. After the GON had itself assumed control over a significant portion of the economy, however, it frequently suffered from the same type of labor difficulties, i.e. strikes and temporary takeovers, as did private sector firms. Finally, the FSLN/GON changed its tack and initiated new policies focused on production. In September 1981, the GON imposed a state of emergency suspending the rights and guarantees of Nicaraguans to strike.

In September 1983, the GON established a mandatory national wage scale for all salaried workers. The plan called for the creation of a 26-step wage scale, with all occupations allocated to the steps, from level one for unskilled labor to level 26 for the most qualified professionals.

Discontent with the GON's labor policies, especially the wage scale system, prompted in mid-February 1984, the first major labor strike since the 1981 decree banning such activities. Some 5,000 field workers at Nicaragua's largest sugar operation defied the prohibition on strikes. They seized the estate's refinery to protest rising prices, frozen wages, and reduced allotments of rationed items. The Sandinistas criticized the independent union at the refinery for instigating the strike, but in fact those participating were field workers who had decided to disregard the leaders of their Sandinista aligned union and initiate a spontaneous wildcat strike. At first, the Labor Ministry resisted the workers' demands for higher wages, arguing that any wage increase would be inflationary. In the face of worker solidarity, the Ministry ultimately backed down and approved pay raises.

The state of emergency has been extended nine times and currently continues in effect. But, in conjunction with the commencement of the three month election campaign period, the GON officially lifted its ban on strikes in early August, 1984. Within three weeks, various unions began to test their restored right to strike. Sporadic strikes began to break out in various firms in late August, and on September 3, 720 metal workers walked off their jobs. Within hours, the Labor Ministry declared the strike to be illegal and said that there would be no negotiations while it continued.

The Sandinista press blamed the non-Sandinista-aligned unions for the flurry of labor disputes. It labelled them "voices that are linked to the bourgeoisie and imperialism." It stated that these "enemies of the working class" were striving to foment strikes to distract peoples' attention away from imperialist aggression.

Comandante Victor Tirado, the member of the FSLN National Directorate handling labor matters, asserted that "in the current situation, strikes make no sense. They diminish production and weaken the revolution." Tirado explained that "the strike as a weapon, as a political instrument of the working class, has already passed into history. The GON's experiment with allowing strikes was thus short-lived, lasting barely one month. While workers now have the legal right to strike, a de facto ban remains in effect.

MILITARY COSTS

Military costs are another major contributing factor to Nicaragua's economic woes. Somoza's National Guard never exceeded 7,500 men until 1978 when efforts were begun, largely unsuccessfully, to double the size of the Guard. There are now 120,000 armed Nicaraguans and the government is planning further increases. At the beginning of 1984, official Nicaraguan sources estimated that 25 percent of the budget went to the military. President Daniel Ortega has admitted that 40 percent of the 1985 budget is earmarked for defense. Many observers believe that figure to be much higher if indirect support costs are included.

According to the Sandinistas, arms procurement is not costing Nicaragua foreign currency. Weapons suppliers, they claim, have either donated arms or granted generous credit terms. Major expenditures for the military are for wages and supplies such as food and uniforms. Nevertheless, the military is suffering from shortages of basic supplies.

In addition to the direct costs of maintaining the largest fighting force in Central America, the opportunity costs are high. For the past two years, Nicaraguan harvests have suffered because of manpower shortages. Students and foreign volunteers have been shipped in to assist with cotton and coffee harvests to help replace more experienced laborers who are either now in the army, in hiding or outside the country. Besides creating costly delays, the use of these inexperienced pickers damages plants and reduces product quality.

It is difficult to assess how much of the current military expenditure is due to the war against the freedom fighters. The greatest majority of those whom the Sandinistas fight today are former supporters of the FSLN or at least of the broad goals of the pluralistic revolution. FSLN policies have converted them into enemies. Even in the first years of the Sandinista regime, when the freedom fighters were not yet numerous, the army, militia and reserve were much larger than under Somoza; obviously internal control was the primary reason for the buildup.

OUTLOOK

With the November 1984 election out of the way, the Sandinistas are again turning their attention to economic problems, which they admit are severe. However, the Sandinistas have been careful not to raise expectations, stressing that the fighting is a serious and unavoidable drain on the economy. They continue to falsely blame their problems on the regional economic downturn and U.S. aggression.

Thus far the Sandinistas have resisted the economic, political, and social pressures to open the economy. The halfway measures of raising some prices to producers will not succeed, however, in revitalizing the economy. Too many control mechanisms remain in place for the market to operate efficiently. Moreover, because of their ideological outlook, the Sandinistas are unwilling to make basic structural changes, changes which would undoubtedly benefit the economy, but also assist their democratic opposition. They appear to prefer a deteriorating economy to one in which they would lose control.

Aid from the West will likely continue its downward trend. The Sandinistas' continuing harassment of the Democratic opposition seems to have dampened enthusiasm even among their former supporters in Europe. Aside from political considerations many countries have shied away from extending credit lines and loans because of Nicaragua's poor payment record. With production still declining, there is no realistic way for the country to pay its foreign debts. Nevertheless, for political reasons it is expected that the Soviet Union, Cuba and Eastern European countries, along with countries like Libya and Iran, will seek to keep the country from collapse through massive assistance. With oil from the Soviet Union and huge quantities of goods coming into the port of Corinto from the Sandinistas' friends, the economy may continue to limp along, but fundamental problems will remain.

Unless significant changes occur, the next five years look as bleak as the first five years of Sandinista rule. The government has called 1985 the decisive year in its battle against the armed opposition and is devoting its resources to eradicating them. It continues to blame its economic problems, including shortages of all kinds, on this struggle. It has also recently stepped up its campaign of condemning smuggling, speculation and hoarding, attacking small businessmen and further inhibiting their operations. The Sandinistas continue to state publicly that Nicaragua is not becoming another Cuba and that they want to maintain a mixed economy. A review of policy trends and the private statements of various Sandinista leaders suggests, however, that the private sector is headed for a slow death.

Rather than resort to wholesale nationalizations, the Sandinistas will continue to tighten the reins on the private sector, starving it of what it needs for existence: remunerative prices, access to a free market, freedom to buy and sell, access to foreign currency, and, ultimately, the rule of law, i.e., a true agreement between those in the private sector and the Sandinistas which will allow them to exist as free men in a free society. Without these elements, elements which do not exist today in Nicaragua under the Sandinistas, men and women participating in the private sector will finally either be driven out or drop out, leaving the government to step in. Present policies guarantee these results. Even after the individual tragedies of those who lose everything in their struggle come to an end, the national tragedy of Nicaragua will go on.

US POLICY

After playing a key role in the ouster of President Somoza in 1979, the US Government immediately airlifted food to feed the thousands of persons displaced by the war. The US continued to assist the GRN with both financial and food aid until 1981 when new loans were cut back substantially and obligations continued on only a few projects. The US sought to provide some military assistance, mainly training, but was rebuffed and had the same experience when it offered Peace Corps volunteers. The US supported the favorable treatment granted by the commercial banks in their rescheduling agreement and supported loans in multilateral banks based on stated commitments to a mixed economy and sound policies.

As the arrogance of the Sandinista leadership and its complete commitment to Marxism-Leninism and alignment with the Soviet Bloc became increasingly apparent, US opposition to the regime grew and was reflected in the 1983 decision to drastically reduce the sugar quota. Preferential access to the US market and a high price for sugar were deemed inappropriate for Nicaragua. Opposition to loans in multilateral development banks was based on the increasingly poor creditworthiness record of the Sandinista government.

Numerous uncompensated property expropriation cases against U.S. citizens have dragged on for over five years. Despite the legal possibility of taking retaliatory action in connection with these cases, we did not do so. Nicaragua continued to benefit from GSP and was included in the list of countries eligible for "duty free" treatment under the Caribbean Basin Initiative (CBI). However, Nicaragua did not meet the requirements to be designated for the CBI.

Depressed economic conditions in Nicaragua were, of course, due to disastrous economic policies adopted by the Sandinistas and not to any actions by the US. Continued intransigence by the Nicaraguan government in refusing to take concrete steps toward a dialogue and other measures leading to reconciliation caused the US Government to impose an embargo on trade with Nicaragua at the end of April 1985. The embargo is directed at the Sandinista regime, itself responsible for the increasingly depressed economy, and not directed at the Nicaraguan people who are the victims of that regime. The primary cause of expected further economic deterioration will not be the embargo, but rather the economic and political policies of control and repression that the Sandinistas continue to follow.

PUBLIC SECTOR PRODUCTION AS % OF GDP (Nicaragua)

YEAR	%
1975-77	12%(average)
1978	13.7%
1979	26.1%
1980	33.6%
1981	37.8%
1982	39%
1983	40%
1984	45%

PERCENT SHARE OF BANK CREDIT THAT GOES TO PRIVATE SECTOR

(Nicaragua)

YEAR	%
1975-77	75% (average)
1978	70%
1979	29.1%
1980	23.3%
1981	40.2%
1982	15%
1983	15.7%
1984	10%

NICARAGUA: AVERAGE REAL WAGES*

(Annual percentage change)

	1980	1981	1982	1983	Est. 1984
Average wages					
Private sector	-15.0	1.4	-12.7	-12.6	-11.8
Public sector	***	-10.8	-18.7	-11.5	4.4

*Nominal wages are deflated by the consumer price index.

CONSUMER PRICE INDEX (Nicaragua)

YEAR	%
1975-77	7.4%(average)
1978	4.6%
1979	4.82%
1980	35.3%
1981	23.9%
1982	25%
1983	28%
1984	60%
1985*	100%

*estimate

FINANCIAL SUPPORT TO GOVERNMENT OF NICARAGUA FROM COMMUNIST COUNTRIES

YEAR		
1979	Total	$2 million
1980	Economic	$30 million
	Military	$5 million
1981	Economic	$80 million
	Military	$40 million
1982	Economic	$150 million
	Military	$90 million
1983	Economic	$240 million
	Military	$110 million
1984	Economic	$280 million
	Military	$250 million

US ECONOMIC AND MILITARY ASSISTANCE TO NICARAGUA 1962-1985

YEAR	TOTAL ECON	TOTAL MILITARY
1962-78(total)	224.7	25.2
1979	16.7	*
1980	37.4	0.0
1981	59.6	0.0
1982	6.2	0.0
1983	0.0	0.0
1984	0.0	0.0
1985	0.0	0.0

*indicates amounts less than $100,000

(Nicaragua)

STATE ENTERPRISES	FUNCTION AND STRUCTURE
1. Nicaragua Institute of Energy (INDE)	Generation of Electric Power. 100 percent of sector
2. Nicaraguan Institute of Water and Sewage Facilities (INAA)	Water and Sewage Services. 100 percent of sector
3. Nicaraguan Institute of Insurance (INISER)	Created in October 1979 with the nationalization of all domestic insurance companies. 100 percent of sector
4. Nicaraguan Institute of Fisheries (INPESCA)	The institute has a monopoly over the marketing of fish and seafoods.
5. Nicaraguan Institute of Mines (INMIEH)	After the revolution, the institute was given a monopoly over the exploitation of mines.
6. Nicaraguan Institute of Post and Telecommunications (TELCOR)	Transformed into a public enterprise in 1971; it operates the telephone and telegraph network as well as the post office service. 100 percent of sector.
7. National Lottery	This enterprise has been made dependent upon the ministry of welfare. 100 percent of the sector.
8. National Petroleum Company	Commercialization of oil. 100 percent of wholesale market.
9. Enterprise for marketing of basic grains	It purchases and sells basic grains and other products of massive consumption. It acts in some cases (grains) as a price regulatory agency.
10. National Bus Company (ENABUS)	Public enterprise before the revolution. 50 percent of the sector in Managua.
11. National Railways	Public enterprise before the revolution which mainly serves the Pacific coast.

12.	Foreign Trade Enterprises A. Five enterprises provide pre-export financing to producers which monopolize cotton, coffee, beef, sugar, and banana exports in addition to marketing the different export products.	100 percent of the sector.
	B. Nicaraguan Enterprise for Agricultural Inputs (ENIA)	Imports those products and sells them domestically to the to the general public. 100 percent of the sector.
	C. Nicaraguan Import Enterprise (ENIMPORT)	Coordinates the imports of all State-owned APP (AREA PROPIEDAD DEL PUEBLO) Enterprises. 100 percent of the sector.
	D. Enterprises in the area of public property	State ownership in these enterprises varies from less than 50 percent to 100 percent. The major part of these enterprises were confiscated immediately following the revolution.
13.	People's Industrial Corporation (COIP)	This is a holding company of about 100 enterprises grouped into five branches: 1. Metal-working 2. Foodstuffs 3. Construction materials 4. Textile and design 5. Chemicals, plastics, and pharmaceuticals. 36 percent of total manufacturing production in 1980.
14.	People's Commercial Corporation (CORCOP)	Textiles, automobiles and auto parts, appliances, general services, supermarkets, and popular stores. 20 percent of the commerce in basic goods during 1980.
15.	Enterprises Dependent on the Ministry of Agricultural Development	More than 25 enterprises producing agricultural inputs and/or agroindustrial goods; 173 production complexes and 2,200 units of state production generated by these enterprises. Was 16 percent in 1980.

16.	People's Forestry Corporation (CORFOP)	This corporation produces about 10 percent of total forestry production.
17.	Enterprises in the communications field	The State's radio corporation, the Sandinista TV system (2 stations), the Editorial New Nicaragua (Book Publishers), the "Office of Public Relations," and the "Cultural Corporation".

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Nicaragua: Vulnerability to Economic Sanctions

12 December 1984

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Nicaragua: Vulnerability to Economic Sanctions

Summary

Based on a review of the Nicaraguan economy and its trading patterns, US economic sanctions would likely cost Managua $25 million over the first 12 months of implementation in direct foreign exchange losses and impose even greater indirect costs in terms of disruptions and dislocations. While the impact would be unlikely to lead to any fundamental policy changes it would certainly place a burden on the regime. The projected loss in foreign exchange, for example, equals about eight-tenths of a percent of GDP and would directly offset about 10 percent of current Communist economic aid. On the import side, while Managua has already begun to diversify away from the United States, disruptions in basic consumer goods and spare parts for machinery could be expected. [redacted] 25X1

The impact of US sanctions would not be limited simply to the pure economics. Any US action would almost certainly put additional strain on an already weak managerial structure. As it is, economic activity and living standards have deteriorated in Nicaragua--not because of lagging import capacity, but rather because economic mismanagement and inappropriate price signals have precluded the efficient use of resources. This has been compounded by a loss of business confidence, which has derailed private investment and reduced production efficiency. [redacted] 25X1

If the experiences of past economic sanctions are a guide, the dislocations Managua would face should decline over time. There are, of course, a number of key political and strategic unknowns that could alter the effectiveness of sanctions against Nicaragua. To the extent that US allies--either in Latin America or in Europe--proved willing to actively join Washington's lead, the initial impact of economic measures would be both more severe and long lived. The prospects for US-West European joint action, however, are doubtful. Indeed, foreign reaction could work in the direction of offsetting US actions. Another unknown is how sanctions might affect the relative position of internal opposition to the Sandinista regime. If the FDN, for example, responded to US moves by disrupting key export producing areas and interdicting goods being smuggled out of the country, their tactical position could be strengthened. At the same time Sandinista actions to batten down the hatches could also sharply limit the existing flexibility of the political opposition. [redacted] 25X1

Economic Sanctions and Their Possible Impact

In assessing the potential impact of economic sanctions, it is important to understand the probable disruptions to the local

[redacted] 25X1

economy--both in simple economic terms as well as from a managerial standpoint--from actions taken against exports, imports and financial flows. From a purely economic standpoint this means determining the cutback in foreign exchange a country will face and analyzing the ability of the economy to both cut imports and line up new markets. From a managerial standpoint, this involves assessing, even if in rough terms, the disruptive effects that could occur from overextending talent already in short supply. [redacted] 25X1

As far as simple economics are concerned, any nation has four major sources on which it can draw for hard currency. It can get the money it needs to pay for imports by:

- -- Exporting items to other countries.
- -- Lining up new loans from the international financial system.
- -- Drawing down foreign exchange holdings.
- -- Receiving aid, grants, transfers, and the like from foreign private and official sources. [redacted] 25X1

The Export Picture

Historically, when sanctions have been introduced, most emphasis has been placed on the trade side.[1] In general terms, Nicaragua exported about $390 million in goods in 1984, up some from the $370 million pace of 1982.[2] Looking at 1982--the last year for which complete reporting is

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1 For a description of how economic sanctions have been used historically, and how successful they have been, see Annex A. For more detailed information on Nicaragua's export trade see Annex B. [redacted] 25X1

2 The discussion of exports largely ignores services [redacted] 25X1 Even so, we believe they are small relative to commodities. Based on a review of what information we do have, Nicaragua's principal export service to the United States appears to be transportation via the national airline "Aeronica," which has five regularly scheduled flights to Miami each week. No US carriers provide service to Nicaragua. We have no hard information on Nicaraguan revenues from the service, but rough calculations suggest that they are probably on the order of about $10-12 million annually with net hard currency earnings probably totaling substantially less. [redacted] 25X1

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available--nearly 70 percent of Nicaragua's exports went to the developed world. The United States' share of the total was 22 percent. The Communist world, led by Eastern Europe and China, accounted for another 12 percent of Nicaraguan sales, with the Central American economies totaling an additional 15 percent of Managua's export total. 25X1

Zeroing in on specific commodities, Nicaragua's exports are dominated by foodstuffs. In 1982, food and food-related materials accounted for two-thirds of all Managua's foreign sales. As far as the specific items in this single category are concerned:

-- Coffee and cocoa totaled 50 percent of total food-related exports.

-- Meat, especially beef, and seafoods accounted for another 20 percent.

-- Sugar totaled 12 percent.

-- Fruits, mainly bananas, and vegetables accounted for another 5 percent.

As for the remainder of Nicaragua's exports, raw materials and manufactured goods--largely chemicals--dominate the picture, accounting for roughly 20 and 10 percent of total foreign sales, respectively. 25X1

Potential Embargo Targets

In the event of a US action against Nicaragua, four exports--bananas, beef, seafood and tobacco--would likely draw the most attention because they dominate US-Nicaraguan trade. In general Nicaragua would have five basic ways to respond to any US-directed cutoff in trade. Specifically, it could:

-- Simply accept the full loss of net foreign exchange.

-- Try to divert previous US purchases to other hard currency markets, such as Western Europe.

-- Try to increase its sales to the Soviet bloc, realizing that payment in hard currency would be far less likely.

-- Ask the Cubans to sell the goods through their sales networks.

-- Sell to middlemen in neighboring countries who, in turn, would try to sell the items in the United States or elsewhere.

SECRET

[redacted] 25X1

The exact choice or combination of responses would depend both on existing market conditions and on the specific good involved. [redacted] 25X1

Bananas

According to trade statistics almost all of Nicaragua's banana export crop is sold to the United States. As of mid-November 1984, Nicaragua was exporting an average of 110,000 boxes of bananas per week to the United States. All Nicaraguan banana exports are shipped from the port of Corinto on Nicaragua's west coast to Los Angeles. Although Nicaraguan bananas represent only 4 percent of total US banana imports, they constitute 19 percent of the West Coast market. [redacted] 25X1

If Managua continues to maintain its banana sales to the United States at its current pace, gross revenues from these exports in 1984 will probably total somewhere around $25 million. Recent US Customs Service data suggest that Nicaragua will earn $26 million from bananas this year. [redacted] that the total banana exports will probably 25X1 run somewhere around 4.2 million boxes for the year and be sold at an average price of roughly $5-6 per box, suggesting export earnings in the same ballpark. [redacted] 25X1

A US ban on Nicaraguan bananas would not, of course, lower Managua's hard currency by the full amount of the gross revenue loss. To calculate the loss, hard currency costs--that is the amount of hard currency that Nicaragua must pay out in the process of raising and selling bananas--must be subtracted from the final sales price. [redacted] 25X1
[redacted] Nicaragua's banana industry, 25X1 the country's hard currency costs are presently running about $4 per box once freight, transportation, brokerage fees, pesticides, fungicides and fertilizers are all taken into account. If the information is basically correct, it implies that the hard currency profit realized by Managua is somewhere around $1-2 per box, or roughly $4-8 million for 1984 as a whole. [redacted] 25X1

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[redacted] 25X1

TABLE 1

Nicaraguan Banana Profit Margin Per Box

Price:	$5-6.00
Hard Currency Production Costs of which:	$4.00
Freight:	$1.40
Container rental, unloading and brokerage fees:	$1.00
Fertilizers, fungicides, and pesticides:	$1.60
Profit:	$1-2.00

[redacted] 25X1

<u>Nicaraguan Reaction</u>. We do not know how Nicaragua would respond to a banana embargo. At one extreme, [redacted] 25X1 25X1 25X1 if the United States ever instituted a ban against Nicaraguan bananas, the country would stop producing them for export and grow other vegetable products instead. This is exactly what Rhodesia did in the late 1960s when, because of UN/UK sanctions, it shifted out of tobacco--the country's largest export industry--into corn and wheat production. 25X1 [redacted] indicates it would make more sense for Managua to let the crop rot in the field rather than give a price discount or pay additional freight charges to move the crop. 25X1 [redacted] sales to other nations would require substantially greater transport time and costs and that Nicaragua's best strategy would be to abandon the crop entirely. [redacted] 25X1 25X1

[redacted] 25X1 Nicaragua has already sold two shipments to Western Europe, possibly the Netherlands, and could switch its current US exports to West European and Soviet and East European markets to offset revenue losses from a US ban. [redacted] 25X1 the switch in markets could also actually reduce some of Nicaragua's current costs because the new deals would likely be handled on a government-to-government basis rather than on consignment and eliminate the brokerage commission. [redacted] 25X1

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[redacted] if bananas were sold to the East Europeans, the elimination of hard currency shipping costs is possible because most CEMA countries have their own ships. Moreover, West European shipping costs, now higher than to the United States, could also be reduced somewhat if Nicaragua successfully negotiated cost-saving contracts on chartered refrigeration ships, an opportunity greatly enhanced by the current worldwide glut of ships. It is doubtful, however, according to the same source, that Nicaragua could successfully circumvent a US embargo by smuggling bananas into Honduras or Costa Rica because both countries are major banana exporters in direct competition with Nicaragua. [redacted] 25X1

While we believe it is unlikely that Managua would simply let the banana industry die, it is also questionable whether a switch to European markets would reduce costs substantially. [redacted] the transportation costs to Europe would add around \$.40-.60 per box onto the total hard currency costs. At the same time, the higher costs would largely be offset by the higher price bananas command in Europe. A recent FAO study, for example, found that the landed price of bananas per box in West Germany, the only market where short-term sales could be readily made, has been running about a dollar above US levels. At least some of this difference would probably be negated as Managua found itself pressured to lower its price in order to make initial marketing inroads. Elsewhere in Europe, sales would depend on the ability of the Sandanistas to get a political nod since the market is already allocated among former colonies and other traditional purchases. [redacted] 25X1

Market Reaction. We have no information at present on whether West European or Bloc countries would buy bananas from Nicaragua, or if they would pay on a hard currency basis. In part, this would prove to be a political decision based on the circumstances surrounding any US actions. We do know from historical trends, however, that CEMA countries typically prefer to barter for agricultural commodities. Moreover, West Europeans already purchase all bananas produced in the eastern Caribbean under the Lome Convention. [redacted] 25X1

On balance it seems reasonable to assume a scenario under which:

- **Exports are totally disrupted for three months.**
- **In the subsequent three months, inroads are made in West Germany--the only EC country outside the Lome convention--and sales return to 10 percent of their previous level.**
- **During the second six months, Managua is able to raise banana sales to a third of their previous level.**

[redacted] 25X1

Under these assumptions the hard currency loss to Nicaragua would range from $3-5.5 million at current export levels. [redacted] 25X1

Beef

During the final years of the Somoza regime, beef production in Nicaragua increased steadily. According to press reports, many cattlemen were concerned about both the stability of the national currency and the political future of Nicaragua and maintained high slaughter rates. After the Sandinista takeover, these high rates continued until, in 1981, the government instituted controls over slaughter to try to arrest the decline in the size of the herd. [redacted] 25X1

While most of the economy sagged in 1982, the cattle industry began to recover. We believe the upward trend in production would have continued in 1983, were it not for inclement weather. An unusually severe and prolonged dry season caused pastures to whither, even in the highlands. When the rains did not arrive in May as expected, the supplies of supplemental cattle feed began to run out, and cattle became very thin. This led to a suspension of slaughter and exports during June and July, according to Nicaraguan data. Although the number of cattle slaughtered in 1983 was greater than 1982, the average hoof weight was down considerably. This caused meat production to fall to 85 million pounds. Export volume was down slightly to 31 million pounds. Because of lower US beef prices, export earnings fell by more, to $29 million. During 1984, after the USDA temporary ban on meat imports because of noncompliance with health regulations, export earnings hit a low of $17 million. [redacted] 25X1

Had the USDA not stopped beef imports from Nicaragua from mid-February until the end of May this year, Managua would likely have earned about $22 million--$5 million more than we estimate for 1984. Although we have no reporting indicating how much of this amount would be net hard currency earnings, it seems that fixed hard currency costs--at least for feeding and grazing the cattle--would be minimal. Nicaragua, with its low population density and abundant pasturelands, is ideally suited for the cattle industry. Indeed, supplemental feed must only be provided during the dry season, according to industry experts. We also have no reporting on transport costs for beef, but according to transportation experts, they should not be too terribly different from bananas, as both would be transported in similar refrigerated carriers. Taking into account the fact that beef has a much higher value per pound than bananas and, hence, lower transportation costs per dollar of final value, we calculate that Nicaragua would have paid $1.2 million of the $22 million in earnings to ship the beef to the United States. Assuming supplemental feeding costs of about $1 million in hard currency, Nicaragua's net hard currency earnings from the United States would have been on the order of $20 million. [redacted] 25X1

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[redacted] 25X1

Nicaraguan Reaction. We do not know precisely how Nicaragua would react to a US ban on beef, but, we believe, it is unlikely that it would simply stop exporting. Diverting meat from the United States to Europe is the most likely possibility, although transportation costs would be higher. Regional options also exist. Nicaragua's cattle country is primarily to the north of Lake Managua and the east of Lake Nicaragua. Beef could be smuggled north along the Pacific coast into Honduras or south along the coast into Costa Rica on the Inter-American Highway, as Honduran and Costa Rican beef is virtually indistinguishable from Nicaraguan beef. [redacted] 25X1
[redacted] Nicaraguan beef is already being smuggled into Honduras to profit from the advantageous prices and exchange rates in that country. 25X1
Moreover, smuggling of beef was a major source of effective capital flight in the last years of the Somoza regime [redacted] 25X1
While the amount of beef that could be moved by smuggling is likely low relative to the volumes now being exported to the United States, the option exists for at least some transshipment in this manner. Certificates of origin can be easily falsified, as has been shown in the Middle East where [redacted] the Arab boycott of Israeli goods has been evaded by simply labeling Israeli goods as Lebanese and exporting them via Lebanese territory. [redacted] 25X1 25X1

Concealing the smuggling would be made much easier by the fact the Nicaragua already ships at least $35 million of its export commodities each year to its neighbors via the trucking routes. For example, in 1983, Nicaragua exported, mostly by truck, $16 million worth of goods to Costa Rica, and $23 million to Mexico, Guatemala, El Salvador, and Honduras. Many additional millions in regional trade also cross Nicaraguan borders, and full cooperation from Costa Rican and Honduran authorities--including a willingness to prosecute their own businessmen--would be required to stop the transshipment of a substantial share of Nicaraguan exports to the United States. Even then, the ease of falsifying documents, and the probable willingness of businessmen in these countries to supply falsified certificates of origin make it most unlikely that all the trafficking could be stopped. [redacted] 25X1

Market Reaction. As in the case of bananas, shipping beef to Europe would logically be the easiest option, from an economical standpoint, for Managua to consider. We have no idea how Honduras or Costa Rica would respond to significantly increased smuggling by the Nicaraguans across their borders. Even if they were very unhappy, it is unclear whether Tegucigalpa or San Jose would be able to put a stop to any of the activity. While smuggling is possible from Managua's standpoint, the problem would be how much beef on the hoof could effectively be moved, to say nothing about the added costs of fake documentation and middlemen services. [redacted] 25X1

[redacted] 25X1

Taking all of these considerations into account it seems reasonable to assume that in the case of US actions against Nicaraguan trade we could have a scenario under which:

-- All the beef which would have been exported to the United States in the first three months following any US action is completely halted.

-- In the subsequent three months, a quarter of former US imports are shipped to Europe, and in the second half of the year this amount increases to between 40 and 60 percent of former sales.

-- Within three months, an additional 5 percent of the herd is surreptitiously sold to the United States through middlemen in the region, but only with Managua paying 30 percent of current profits to the smugglers.

Moreover, taking into account the additional transportation fees to Europe, which would probably double these costs, and factoring in the difference in US/European beef prices--the price in London in late summer, for example, exceeds that in the United States by 15 percent--the total hard currency loss would run around $12.5-14.5 million. [redacted] 25X1

Seafood

Shrimp is the most important fisheries product in Nicaragua. Even so, shrimp production and export volume have deteriorated steadily since 1977, according to standard sources of trade data. The shrimp catch of 1981, for example, was down 43 percent from the 1977 level. Partial figures for 1982 indicate that the catch deteriorated another 17 percent that year. In 1983, Nicaragua estimates that production again fell, this time by 45 percent [redacted] 25X1
[redacted] the declining shrimp catch is caused by the severe parts 25X1
shortage in the fleet, which shows no clear signs of being resolved in the near future. Although export volumes have shown a similar pattern to the shrimp catch, the value of exports has held up remarkably well because average prices for exports have risen steadily. [redacted] 25X1

Spiny lobster is the second most important fisheries product in Nicaragua. Lobster production has followed a pattern very similar to that of shrimp production. The peak catch of nearly 2.9 million pounds was achieved in 1978, and has declined every year since then until 1983, when production rose by about 5 percent. Again, the lack of spare parts and equipment since the revolution is the principal cause of the poor performance. Like shrimp, rising prices have somewhat offset the output declines. Industrial fish production is very minor in Nicaragua and is primarily for domestic use. [redacted] 25X1

[redacted] 25X1

Based on recent trade statistics, we believe Nicaragua will earn $10 million in gross foreign exchange earnings for seafood this year from the United States. It is unclear how much of this amount is net hard currency earnings, but since the initial investment for boats has already been made, direct ongoing costs should be largely limited to spare parts and petroleum products. Fixed costs should be minimal. Given that the poor performance of this sector of the economy in recent years has been attributed to a lack of spare parts and machinery, the amount of capital investment probably has been very low. As long as the Soviets are willing to directly supply oil to Nicaragua, the only major hard currency costs of marketing seafood abroad would be transport costs and possibly brokerage fees. Although we have no reporting on what actual transport costs are, according to transportation experts, the calculations would be similar to those for bananas and beef because seafood must also be transported in refrigerated vessels. Assuming no brokerage fees, and making the same type of transportation assumptions we made for beef, but taking into account an even higher value per pound, Managua would net $9.5 million in hard currency from seafood. [redacted] 25X1

Nicaraguan Reaction. Like beef, we believe it is unlikely that Managua would stop exporting seafood. If faced with a US ban, West and East European markets could provide a partial outlet. Transshipping the seafood might also be considered, but given the difficulty in keeping it fresh, the odds of successfully smuggling more than a small amount are quite low. [redacted] 25X1

Market Reaction. We have no idea how neighboring states might respond to seafood smuggling by Nicaragua, or if they would even attempt to stop it. **If, however, we assume that the prospects for smuggling seafood are half as good as for beef, and that the European sales outlook is similar, then the net hard currency loss from seafood would be in the range of $6-7 million.** [redacted] 25X1

Tobacco

Nicaraguan exports of tobacco leaf in the 1982/83 marketing year were approximately 1.3 million pounds, valued at $4.4 million. Of total leaf exports, $2.8 million worth--about 65 percent--went to the United States, with at least part of the balance going to Bulgaria. The destination of the balance of leaf exports is unknown. Cigar exports reached 1.8 million--$2 million worth--all of which were exported to the United States. Cigarette leaf exports in 1983/84 were expected to reach only 638,000 pounds, valued at $1.5 million. [redacted] 25X1
[redacted] the decline in production is due to the country's overall poor 25X1
economic health and its inability to import needed inputs. Cigar export projections for 1983/84 were not known, although most probably went to the United States. [redacted] 25X1

[redacted] 25X1

The United States imported $5 million worth of Nicaraguan tobacco products in 1984. This figure probably closely represents net hard currency earnings, as there appears to have been little Nicaraguan investment in the industry in recent years, and transportation costs for tobacco and its products, according to industrial publications, are apparently relatively low. While it overstates the case slightly in the event of a totally successful US ban, Managua would stand to lose close to $4-5 million in net foreign exchange earnings. [redacted] 25X1

<u>Nicaraguan Reaction</u>. In our judgment, Nicaragua would probably not abandon tobacco production should a US embargo be imposed, if only because domestic consumption is heavy and probably could easily absorb most of the surplus. Moreover, Bulgaria has recently provided technical assistance to Managua in planting some 695 hectares of new fields, exclusively for export to Bulgaria, according to press reports. Bulgaria then, may be a viable alternative to the United States. Moreover, according to US Customs, Nicaragua could load the tobacco on ships making interim stops in Central America or the Caribbean before entering US ports. US customs agents would probably have a very difficult time distinguishing between the two varieties. Ships carrying falsely-labeled Nicaraguan products to interim stops before reaching the United States could probably be fairly easily detected by their unusual pattern of port calls, but proving in a court of law that products were actually Nicaraguan could be more difficult. The option of selling to Cuba and letting Havana handle the tobacoo through its marketing net is also one that Managua would almost certainly explore. [redacted] 25X1

<u>Market Reaction</u>. Barring a ban on Nicaraguan tobacco by a broad range of countries, continuing export sales seem likely to us. **Assuming middleman and transportation costs wiped out 20 percent of net earnings, and the initial time required to line up new supplies delayed the sale of another 20 percent, the loss in foreign exchange would total somewhere around $1.5-2 million.** [redacted] 25X1

TABLE 2
<u>Foreign Exchange Losses Due to a US Embargo</u>

Bananas:	$ 3-5.5 million
Beef:	$12.5-14.5 million
Seafood:	$ 6-7 million
Tobacco:	$ 1.5-2 million
Total:	**$23-29 million**

[redacted] 25X1

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[redacted] 25X1

Other Sources of Foreign Exchange

Manauga's ability to get foreign exchange to import goods is not simply limited to export earnings. Like any other country, hard currency funds can, at least in theory, be obtained from the international financial system and in the form of aid and grants from foreign individuals and governments. [redacted] 25X1

The International Financial System. In our view, the Sandinista regime would be hard pressed to come up with much, if any, additional currency through the international financial system. As it is, Nicaragua has fallen into arrears on interest payments to commercial banks to the tune of $170 million [redacted] Despite numerous 25X1 debt reschedulings, Managua has been unable to keep current on its interest payments, and announced a one-year moratorium in June 1984, which has been since unilaterally extended to June 1985. Managua agreed to pay 10 percent of the postponed interest obligations and carrying fees in small quarterly payments but has covered no installments since December 1983. Moreover, Nicaragua has consistently stood up bankers in talks scheduled to normalize the arrears. [redacted] 25X1

[redacted] Bankers are pessimistic about 25X1
25X1 receiving their money.[3] [redacted] that Sandinista strategy is to make substantial efforts to repay only those institutions that it believes will offer additional financing--which at present is negligible. There is also concern that if payments are to be made the commercial banks will come near the end of the queue. For example, Henry Ruiz, a Directorate member and Minister of Planning [redacted] 25X1
[redacted] that when bills for Soviet oil start 25X1
falling due, they will take first priority.[4] [redacted] 25X1

In our view, not only would Managua find it very difficult to line up any additional new loans through the banking system, but it would also run into problems with international organizations. During the last two

[redacted] 25X1

[redacted] 25X1

years, Managua has fallen $10 million behind on debt payments to the IMF. Moreover, the World Bank has recently declared Managua in default and suspended further disbursements of funds, according to IBRD reports. [redacted] 25X1

We believe Managua would also find it difficult to turn to its foreign exchange holdings as a source of funds to offset any sizable export losses. If the statistics Managua gives to the IMF can be trusted, the country probably has around $130 million in total foreign exchange holdings. At the same time, according to an IMF report, net foreign exchange reserves--that is foreign exchange less short-term obligations--were running in the red by around $450 million in 1983. As far as reserve holdings in the United States are concerned [redacted] 25X1 [redacted] that the Nicaraguan government had 25X1 $3.3 million in banks in the United States at the end of June 1984, while Nicaraguan banks--which the government fully controls--held another $4.6 million. In addition, the government had another $1-2 million in overseas branches of US banks. In addition to government funds, private Nicaraguan citizens, as of 30 June 1984, held about $132 million in bank deposits in the United States. [redacted] 25X1

Foreign Aid. From Managua's standpoint, the foreign aid situation is a bright spot in Nicaragua's overall financial situation.[5] Since 1982, foreign aid and grants have been a principal source of foreign exchange for Managua. During 1984, we project that Managua will receive a total of at least $760 million in official loans and grants--more than twice the amount earned through exports. More than half of this aid--$470 million--will come from Communist sources. While the Soviet Union accounted for the bulk, North Korea, Bulgaria, and Yugoslavia also contributed. Of the $760 million total, we project Managua will receive $510 million in loans--of which $100 million will finance military purchases--and $250 million in grants--of which $150 will be used for arms. If hard currency losses caused by a US export ban totaled the $23-29 million we roughly calculate, the Soviet bloc could offset this loss only if they were willing to increase total hard currency aid by about 5 percent or non-military aid by about 10 percent. [redacted] 25X1

The Import Picture

Assuming the Soviets were unwilling to offset more than a fraction of Managua's hard currency loss, and the regime did not dip into its foreign exchange, then the direct loss in imports caused by the export dropoff

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5 For more information of foreign assistance to Nicaragua see Annex D. [redacted] 25X1

25X1

would total about eight-tenths of one percent of overall GDP. If Nicaragua were a typical economy with flexible markets and a responsive manufacturing sector, the total loss, including direct and indirect costs, could reach something on the order of 1.5 percent of GDP, assuming no domestic offsets. In Nicaragua's case, however, the odds are that the loss would be greater both because of the nature of imports from the United States and non-economic factors that would be set into play. 25X1

As far as imports are concerned, the picture is fairly straightforward. During 1982, the most recent year for which we have complete trade data, Nicaragua imported almost $824 million in total military and nonmilitary merchandise, with about $150 million of that coming from the United States.[6] When compared with earlier years, 1982 trade figures reflect a shift away from purchases from Managua's traditional trade partners, the United States and the Central American Common Market (CACM), and toward imports from Mexico, Europe, and Communist Bloc countries. Favorable trade agreements with these countries--at a time when most US export credits to Managua were being cut and CACM countries were experiencing foreign exchange shortages--have been mostly responsible for the change in import patterns. By 1982, Mexico had already replaced the United States as Nicaragua's main trading partner, although the United States still remains Nicaragua's largest single non-oil supplier. If anything, we expect that this shift away from the United States and CACM has continued since 1982. 25X1

Focusing on Nicaraguan imports, US trade statistics show that US sales to Nicaragua will probably run about $120 million this year. This would represent a 13-percent share compared with 31 percent during 1975-77. If first-half 1984 trends continue, the main categories of imports from the United States during 1984 will be:

-- chemicals, drugs, and fertilizers ($12 million)

-- vegetable oils, eggs, and other foods ($8 million)

-- agricultural and motor vehicle machinery and parts ($7 million), and

-- cereals and soybeans ($6 million).

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6 For more information on Nicaragua's import trends, see Annex E. 25X1

[redacted] 25X1

US firms will also export some services to Nicaragua. We have no hard information on their magnitude but expect their value to be small compared to commodity exports.[7] [redacted] 25X1

Assuming that the Nicaraguans were determined to continue purchasing US commodities, we believe that the government could, albeit with some delay, difficulty, and expense, arrange for middlemen in neighboring Central American countries or elsewhere to buy and transship most of them. The Nicaraguans would certainly receive coaching from the Cubans, who have over 20 years of experience in avoiding US trade sanctions and already possess an extensive network of front firms through which they could purchase goods for Nicaragua. Concealing purchases through cutouts would be eased because the goods Nicaragua imports from the United States are commonly traded on international markets, and Nicaragua already imports some $125 million annually from its Central American neighbors. [redacted] 25X1

Dependence on Imports

As far as Managua's vulnerability in specific import areas is concerned, we believe industrial and consumer goods top the list. Even with the Sandinista government's policy shift away from industry--which is generally pro-Western in outlook--manufacturing reportedly still counts for a little over 25 percent of GDP, according to Nicaraguan data. Thus, a successful cutback in imports of vital machinery and spare parts could in time further cripple industry--already operating at only about 40 percent of capacity--as equipment wears out. [redacted] 25X1

Managua would almost certainly consider expanding purchases with other countries, although this could result in higher prices. [redacted] 25X1 25X1 Other Latin countries, 25X1

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7 Most US-Nicaragua trade apparently takes place via direct contacts of US firms with companies in Nicaragua. We know of only one firm in the United States that acts as a trade broker--the Sandinista-owned World Commerce Corporation located in Miami. We have no information on its size or assets, but expect that it is small. Nicaragua also has a trade representative in New York and another in San Francisco. Closing down the small offices of the World Commerce Corporation would remove one avenue the Nicaraguans currently use to purchase US goods both for themselves and for transshipment to Cuba. We think that such an operation could be rapidly reestablished in Panama, however, albeit at some additional cost and some temporary disruption of supply. [redacted] 25X1

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25X1

such as Brazil and Argentina, could rapidly supply Managua's requirements for vegetable oils, cereals, and soybeans at little additional cost. From Argentina, Nicaragua could draw on a line of credit set up last March. 25X1 25X1

Imports of spare parts and machinery compatible with existing US-manufactured industrial equipment would present some obstacles. This certainly was the case for Havana when its trade was sanctioned by the United States and the OAS, according to historical accounts. In Nicaragua's case, however, Mexico produces a large quantity of agricultural and transport equipment similar to the older US-made equipment being used in Nicaragua. Compatible oil refinery equipment is produced by several Western countries. 25X1

While Nicaraguan officials continue to stress publicly the need to reduce consumer imports, Managua remains dependent on overseas suppliers for basic items such as drugs, cooking oil, and cereals. A cutoff in imports of any of these essentials could aggravate general grumbling among Nicaraguans already frustrated by shortages of such "luxury items" as toothpaste and toilet paper. 25X1

Managua so far has managed to insulate most of the domestic agricultural sector--which accounts for about 25 percent of GDP--from the need for Western-supplied inputs, such as fertilizer and irrigation equipment. The Soviet Union and East Germany supply the regime with tractors, trucks, and other heavy equipment. A cutoff of chemicals and fertilizer could, however, hurt Nicaragua's rice and cotton crops. The government has boosted acreage planted in cotton 20 percent this year, making a potential crop failure even more disappointing. 25X1

Table 3

Type of Import	Impact of Cutback
Vegetable Oil, Cereals, Soybeans, Drugs	Increased consumer shortages; longer lines; higher costs to assure timely delivery from other suppliers.
Machinery and Parts	Strains on managerial staffs to search for compatible materials; lost production due to additional downtime of US-made equipment.
Chemicals and Fertilizers	Could hurt crop performance--particularly cotton and rice--which depend heavily on these inputs.

[redacted] 25X1

Beyond the Simple Economics

The impact of US sanctions against Managua is not simply limited to the pure economics of hard currency loss and import cutbacks. The Sandinista regime is also vulnerable because of the basic nature of its political-economic system. [redacted] 25X1

Any US action would most certainly put additional strain on Managua's managerial pool. Export cutbacks would have to be assessed, alternative markets located, middlemen sought out, prices and terms arranged, shipping organized, and delivery and export dates coordinated. At the same time, foreign loans would have to be sought and the distribution of import reductions would have to be determined and implemented. While coping with these direct impacts would be a challenge, dealing with the indirect effects and feedbacks would only add a new level of complexity to the situation. [redacted] 25X1

Even without any US action, the Sandinistas are having problems managing their economic base [redacted] 25X1 Production and living standards have deteriorated--not because of lagging import capacity, but rather because economic mismanagement and inappropriate price signals have precluded the efficient use of resources. This has been compounded by the loss of business confidence, which has derailed private investment and reduced production efficiency. [redacted] 25X1

In dealing with the managerial complexity of economic sanctions, we believe Managua would also run the risk of overreaching, and thus intensifying problems. If history is any guide, most of the trade losses from sanctions are front loaded and temporary. Nevertheless, the Sandinistas would see a sudden dropoff in revenue and could respond by acting as if the losses were permanent. If Managua did this, we calculate the import cutback would be far greater than warranted, thus intensifying problems with spare parts and consumer goods. [redacted] 25X1

Likewise, imposition of US sanctions could intensify the Sandinistas' siege mentality, with important consequences for the populace and the anti-Sandinista opposition. If this overreaction were to occur the regime would probably renew measures to mobilize the population to counter a perceived US invasion threat and would likely direct more manpower into the military and militia--further curtailing production. The Sandinista response could of course be even broader. In the past, the government has publicly used charges of disinvestment to seize private property and probably would take advantage of sanctions to accelerate nationalizations. While this would weaken the position of many private sector leaders, it would also directly increase the managerial problem facing the regime. At the same time, we judge that any moves that weakened the private sector would also have political ramifications. The

[redacted] 25X1

political opposition draws much of its top leadership from the ranks of private sector professional and technical personnel, [redacted] 25X1 As it is, the political opposition lacks depth, and could be 25X1 much weakened if a few key individuals were forced out. [redacted] 25X1

How Managua would deal with a sudden intensification of managerial problems is an open question. It could simply batten down the hatches and see the storm through. Alternatively, it could turn to the Cubans, asking for even more economic advisers to man talent-short economic positions in the ministries. [redacted] 25X1

Some Longer Run Effects

On balance, we judge that the economic disruptions initially caused will probably ease with time. If the experience of most other embargoed countries is any guide, circumventing sanctions will probably get easier as Managua finds avenues around trade sanctions. Indeed, given the relatively low level of US-Nicaraguan trade, it is possible that lost US markets could be replaced within two to three years. As the Sandinistas continue to redirect the economy away from the United States, they will need fewer embargoed US goods. Moreover, they should find any problems in getting spare parts eased as US equipment is replaced with machinery from other countries. The transition would be smoother if Communist patrons proved willing to offset at least part of the country's economic losses. [redacted] 25X1

Obviously, sanctions would provide more of a problem for Nicaragua if US allies--both in Central America and in Europe--joined in. As far as the Europeans are concerned, we judge the odds of any unified support to be quite low. Although increasingly disillusioned with the Sandinistas, most West European countries would have real political difficulty admitting they had been wrong in their earlier support. France, and Mexico for that matter, have publicly stated that they believe a rapid radicalization of the regime would occur if they abandon Nicaragua. In the face of sanctions, it would not be surprising to see at least some West European and Latin capitals opt to increase, even if quietly, levels of trade and aid. [redacted] 25X1

In the short run, joint sanctions by the United States, Honduras and Costa Rica would greatly compound Managua's problems. If illegal export routes could be successfully closed, transshipments, and much more importantly normal bilateral trade, would be curtailed. Over time, Managua could adjust to this by increasing its efforts to shift more of its trade to Europe, as well as both to and through Cuba. [redacted] 25X1

If authorities in Honduras and Costa Rica were willing to seriously enforce trade restrictions, they would find the region's geography working

[redacted] 25X1

to their advantage. Costa Rica, for example, would really only have to close down the Inter-American Highway. Because of swampy terrain, Lake Nicaragua would offer few opportunities. Routing material down the eastern coast would be logistically difficult and time consuming. The most likely item that would move down the eastern corridor would be cattle. Honduras, for its part, would have to monitor the westernmost 100 kilometers of its border. This is the region with the most developed road network. To the east of this area, smuggling would probably be limited by insurgent activity. Indeed, any attempt to smuggle cattle or the like through FDN-controlled areas could only be viewed by the FDN as a windfall gain. [redacted] 25X1

A key unknown in any economic sanctions, of course, is how the Contra would respond. At a minimum, we believe sanctions would certainly boost the insurgents' short-term morale. If the FDN turned its attention to action against cattle ranches, banana areas, and the like, the costs to Managua could escalate. Attacks against the banana growing regions would, of course, prove difficult, since most growing takes place in the Corinto area, far from present insurgent operating areas. Cattle, which are raised just north of Lake Managua and east of Lake Nicaragua, could prove more vulnerable, although the insurgents would be hard pressed to sustain any prolonged activities in the region due to supply problems. From an FDN standpoint, the likelihood of a backlash against the insurgents for targetting economic activity would also have to be taken into account. [redacted] 25X1 25X1

[redacted]

Regardless of potential targets, it is clear that the insurgents' ability to interdict trade would enhance their threat to the regime. To the extent the Sandinista regime is unable to control the Contras, countering any economic sanctions would draw on managerial and technical talent, which would already be stretched thin. [redacted] 25X1

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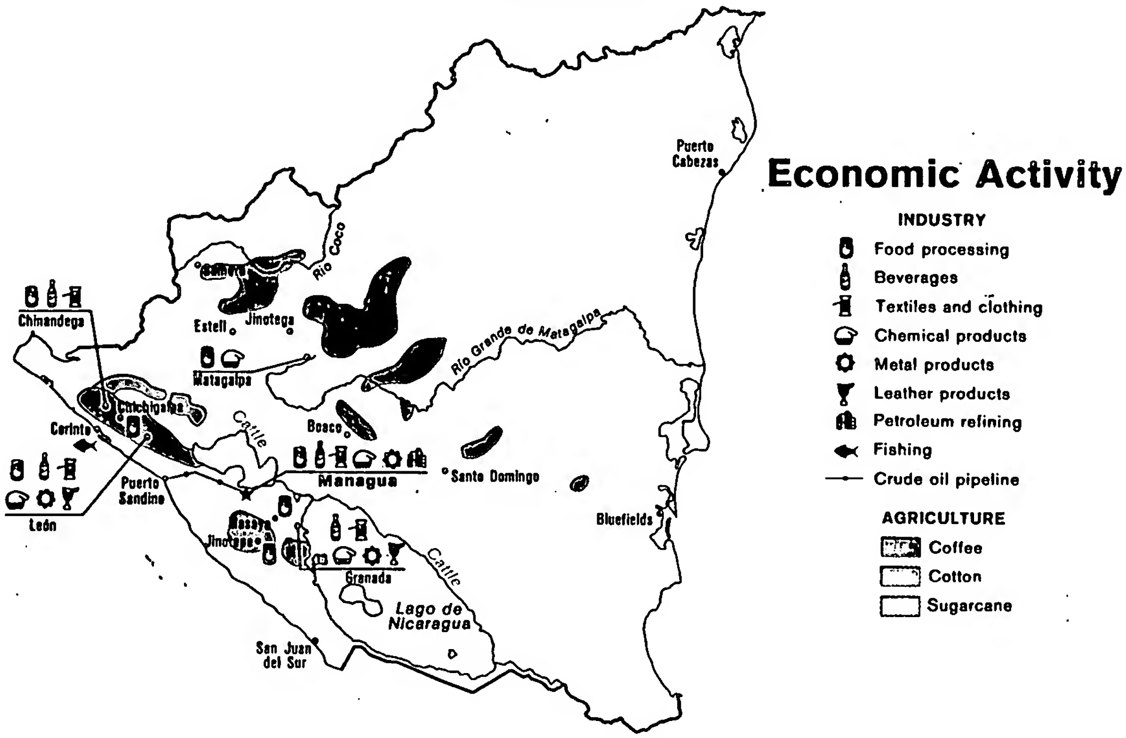

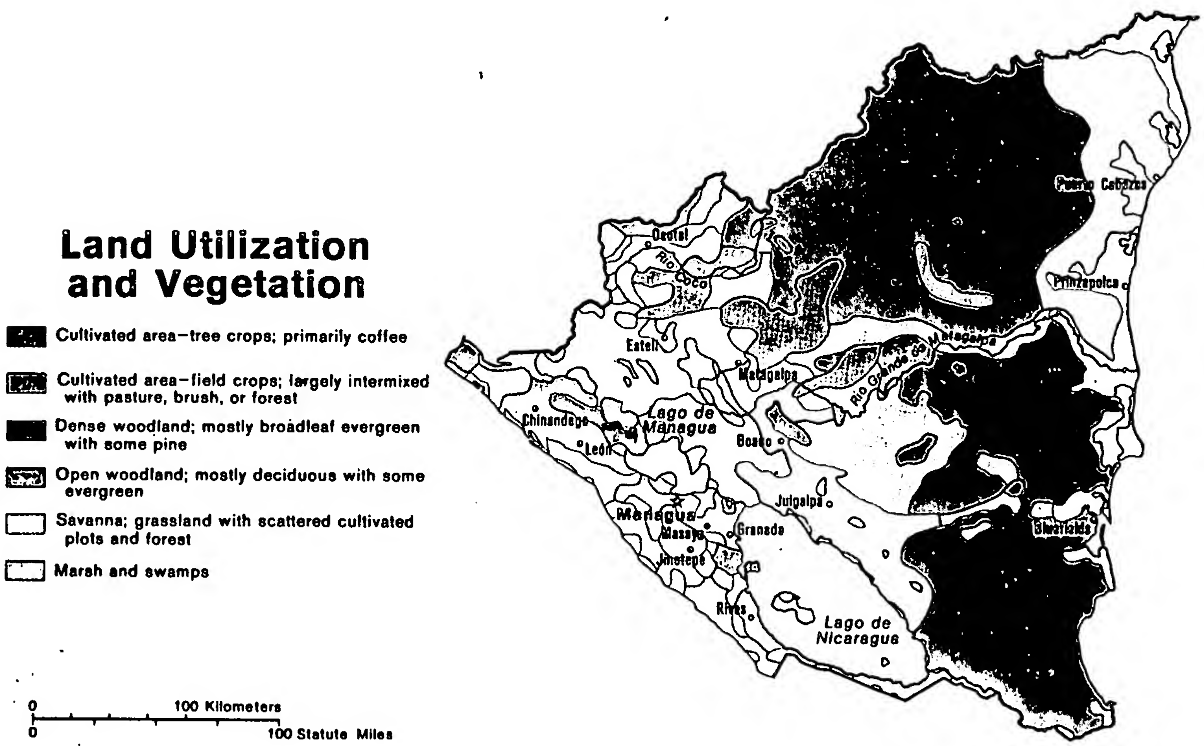

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Insurgent Activity

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ANNEX A

Economic Sanctions: A Historical Perspective

Economic sanctions have often been turned to as a political tool in the diplomatic arena. From a broad perspective sanctions have traditionally been pursued to achieve one of three specific goals:

-- Forcing a major change in a country's behavior or causing a change in leadership.

-- Inflicting economic punishment for pursuing a given policy.

-- Signaling clear disapproval of another country's conduct.

In general terms, recent history has shown that most nations opted for sanctions initially in an attempt to change an adversary's policies. Indeed, in a recent DI study, it was found that this was a stated objective in 9 of 13 major incidents of sanctions since 1935.* While governments have generally followed this most extreme option, it has at the same time proved the most fruitless. 25X1

If economic sanctions are to affect policy, they must have an impact on the country being targeted. From an economic standpoint, the impact can range from minor inconveniences to major economic dislocations. The degree of economic cost itself will be affected by:

-- The access that exists to alternative sources of supplies or markets.

-- The ability of the sponsoring country to enforce the sanctions.

-- The ability a country has to adjust internally. 25X1

In almost all cases sanctioned countries were able to secure alternative sources, supplies or markets for their exports. In this regard, two key studies in which the United States was involved are particularly enlightening:

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-- When the United States imposed sanctions on Iran in 1979/1980, Tehran was heavily dependent not only on imports, but also on goods from the United States. Iran relied on imports to meet most of its requirements for capital goods, industrial raw materials, military equipment, and consumer goods. Despite this dependence, Tehran managed to find alternative sources--albeit at a higher cost. Increased food shipments from France, Germany and Australia more than made up the loss in US foodstuffs. Several Western European, Japanese and even US firms traded embargoed goods through intermediaries in the UAE and Kuwait. Supplier arrangements covered a wide range of industrial goods, capital equipment, and chemicals, all of which were sanctioned. US involvement included the sale of goods such as engine parts, tires, appliances and drill rigs.

-- When the Soviets invaded Afghanistan in 1980, the United States, in consultation with most of its allies, agreed to impose a partial grain embargo. As far as the allies were concerned each was mindful not to take a major stance on sanctions tougher than its neighbors did. Concerning grain, Moscow was able to line up all the grain its ports could handle in the 1980-81 period despite the embargo. The soybeans and soybean meal denied by the United States was fully replaced by Argentina and firms in Western Europe. In fact, EC, Canadian, and Australian grain exports to the USSR all increased in 1980 compared with 1979. [redacted] 25X1

Such an outcome is not simply limited to these two case studies. In almost all recent sanction situations, alternative sources have been found, if nothing else than from opportunistic middlemen and suppliers. For example:

-- When the United States imposed trade sanctions against Uganda in 1979 one-third of Kampala's trade was with the US. Uganda actively sought out new customers for their coffee and other products as they saw the sanctions coming. Official data shows they were quite successful--export receipts during the embargo were little changed from their level before the embargo was imposed.

-- When the French suspended their liftings of Algerian oil in 1971, Paris quickly found that US and British firms filled the exploration gap. Moreover, Sonatrach--the Algerian oil company--emerged from the embargo as the tenth most important oil producing company in the world. [redacted] 25X1

The fact that commerical considerations often compromise cohesion among allies in any prolonged sanction endeavor only makes the trade barriers that are put up all that more porous. Nations subjected to

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embargoes are also able to adapt to cutbacks in critical goods by adjusting internally. Increased self-sufficiency and a shift away from embargo items are the norm rather than the exception. 25X1

Focusing on two pertinent case studies--US/OAS sanctions against Cuba and UK/UN sanctions against Rhodesia--underscore the problems that are involved with sanctions. 25X1

The Cuban Experience. In 1960 the United States took largely unilateral actions against Cuba--American and British refineries refused to process Soviet crude, sugar imports were stopped, and US technicians and specialists were pulled out Cuba. In 1962 the screws were tightened. The US imposed a total prohibition on imports from Cuba, and exports to Cuba were banned, except for foodstuffs and medically-related goods. In July 1964 the Organization of American States (OAS) voted to follow the US lead by asking members to sever diplomatic and commerical relations with Havana. In addition, all air and sea services to and from Cuba were suspended and passport restrictions were imposed. Most OAS members adopted the measures, though they were not enforced rigorously by all. 25X1

Cuba, in response, turned to the Soviet bloc for a trade outlet. By 1965 the East accounted for 76 percent of Cuban trade--up from less than 3 percent in 1957. This rapid shift, of course, was not without cost. Probably the single most damaging effect was Havana's inability to obtain needed spare parts for US-produced equipment. Other problems arose from a lack of complementarily between Cuban import needs and bloc export potential. 25X1

Over time the enforcement of the sanctions became increasingly difficult. Not only did OAS members' resolve decline but the costs to Cuba fell. Cuba's capital base shifted to Soviet, East and West European, and Japanese equipment and machinery. Consumer goods were being produced locally and Havana had opened front companies which enabled it to obtain any needed US products. The political results were also far from what was originally desired. As the impact of sanctions diminished because of Soviet help, the Cubans became more of a irritant to the United States because of their efforts to export revolution and act as Moscow's surrogate in Africa. 25X1

All of these changes, coupled with a shifting political climate, made it apparent by the mid-1970s that Cuban isolation was no longer possible. In August 1975 the OAS passed a resolution that allowed each member to determine the nature of its relations with Cuba. The US voted in favor of the resolution. 25X1

The Rhodesia Experience. The Rhodesia experience is not terribly dissimilar from that of Cuba. Both nations turned to patron states--the

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USSR for Cuba and South Africa for Rhodesia--when faced with sanctions. Unlike the Cubans however Rhodesia had an advantage of multiple borders, albeit mainly with black neighboring states. [redacted] 25X1

After the Ian Smith government unilaterally declared independence in November 1965, Prime Minister Wilson of the UK imposed economic sanctions against Rhodesia that banned arms and capital, as well as sugar and tobacco which together accounted for two-thirds of Rhodesia's exports to the United Kingdom. The British imposed a second set of sanctions in December 1965 which, among other things, cut off several minerals (copper, chrome, asbetos) and foodstuffs (corn and beef), as well as petroleum and petroleum products. The UN followed suit with sanctions in December 1966 and May 1968 which banned all imports from Rhodesia and all export to the country save medical and educational supplies. The UN resolutions--232 and 235--included reminders that a failure to comply with the sanctions would constitute a violation of a member's obligation under the UN charter. Moreover a Security Council committee was established to gather information on any evasion of sanctions. [redacted] 25X1

In many respects Rhodesia appeared to represent a near ideal target for sanctions:

-- Exports were concentrated in a small number of primary products--tobacco, sugar, and a few minerals--and only three markets--the United Kingdom, Zambia, and South Africa.

-- Imports were concentrated in one product area--machinery and transport equipment--and were purchased largely from two countries--the United Kingdom and South Africa.

-- Overall foreign trade accounted for a sizeable portion of Rhodesia GNP.

-- The British economy was not critically dependent either on supplies of raw materials from Rhodesia or on a Rhodesian market.

Despite these advantages the sanctions quickly turned into shambles. South Africa continued to trade with Rhodesia and provided critical imports such as oil. We estimate that two-thirds of the goods moving between Rhodesia and South Africa ended up in world markets with false documentation. Other African countries also broached the embargo.

-- Disguised trade channels similar to those through South Africa were available to Rhodesia from Portuguese Mozambique until its independence in mid-1975.

-- Zambia--Rhodesia's largest 1965 export market--continued to trade with Rhodesia and to use its transport facilities until 1973.

[redacted] 25X1

Then in 1978, after a five-year hiatus, transportation bottlenecks on the alternative Benguela and Tazara railroads forced Zambia to resume transshipments via Rhodesia. This probably enabled some Rhodesian goods--particularly white corn, light manufactures, and coal--to find their way to Zambian markets.

-- Other black African nations--Botswana, Malawi, and Zaire--maintained economic relations with Salsbury in spite of UN sanctions.

On the export side, only agricultural sales suffered badly during the sanctions. The embargo crippled tobacco sales, Rhodesia's single largest foreign exchange item. This was because tobacco was too easily traced to the source and could not, therefore, be passed through foreign middlemen to the world market. The sharp decline in tobacco earnings, as well as a need to reduce dependence on imported foods, caused the government to encourage growers to switch to corn and wheat production. [redacted] 25X1

From an aggregate standpoint, the impact on the Rhodesian economy was far from what the British had originally anticipated. Import substitution flourished. Manufacturing replaced agriculture as the leading sector of the economy. Total domestic investment climbed from 13 percent of GDP in 1964 to 20 percent of overall economic activity the first half of the 1970s. Overall GDP from 1965 to 1974 registered a healthy 6.5 percent average annual growth rate. As it turned out, Rhodesia was, in effect, so successful at internal adjustments that the sanctions left the country with a much stronger economy than before the sanctions. [redacted] 25X1

While the Cuban and Rhodesian case studies point out the problems of successfully imposing economic sanctions, this is not to say that successes have not been achieved. There is at least one major case where sanctions were imposed with the goal of changing the leadership of a regime--the Dominican Republic in 1961 and 1962--proved successful. There are also a number of cases where sanctions designed to inflict economic punishment or underscore displeasure also proved successful. [redacted] 25X1

As far as the Dominican case is concerned in 1961 the OAS initiated sanctions against the island because of its aggression against Venezuela. OAS members voted to break diplomatic relations as well as suspend trade in arms and military materiel. These sanctions were later expanded to include petroleum, petroleum products, trucks, spare parts, and other commodities. Moreover, in addition to joining the OAS sanctions, the United States unilaterally cut back its import quota of Dominican sugar. [redacted] 25X1

The sanctions hit the Dominican economy when already sagging economic performance was hampering adjustment and the Trujillo regime had turned its attention to survival. The Dominican's were able to circumvent some

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of the sanctions by purchasing arms, vehicles, and petroleum--though at a higher cost--from Canada, Western Europe, and the Middle East. Trujillo also managed to ship coffee to the United States disguised in Colombian bags, and he planned to build a Dominican refinery with French and US contractors. Even so, the sanctions clearly worsened the economic crisis as export earnings in 1961 were cut 21 percent and imports fell another 20 percent in nominal terms. 25X1

The economic deterioration fostered political unrest in the middle and upper classes, the army and the church. The regime responded with increased repression and terror. An underground grew rapidly, and in May 1961 Trujillo was assasinated. By the end of the year his regime was toppled and the Trujillo family fled the country. Whether the sanctions were a key is, of course, an open question. It is impossible to determine if they play a critical role in building local opposition or whether the resistance would have followed the same course without OAS/US action. 25X1

In a number of cases, sanctions were introduced, in effect, to underscore displeasure or inflict economic cost. For example:

-- EC sanctions on Argentina were primarily intended to symbolize disapproval of Argentina's invasion of the Falklands and the European Community's solidarity with the British.

-- The Arab League boycott of Israeli serves as a sign of opposition to Tel Aviv and as a propoganda device.

-- Over time, sanctions against Cuba were seen as a way to punish Havana and Moscow by making them pay a heavy economic price for their alliance. 25X1

In our judgment sanctions that either punish or symbolize disapproval have been employed in recent years for two basic reasons:

-- Countries recognize that economic sanctions are unlikely to cause sufficient distress to change the conduct of the major powers, and even poor states are usually able to mitigate or withstand their impact.

-- Mass communications and diplomacy conducted at international forums have placed a greater premium on adherence to universal norms of conduct. Sanctions may symbolize a country's compliance with these norms and highlight the deviation of another. 25X1

While the individual cases of economic sanctions are diverse and full of pecularities, a review of their planning and implementation points out one key lesson--to be successful, the impact of the actions must be consistent with the objective being sought. In essence, then, the

[redacted] 25X1

policymaking review must potentially consider:

-- The kinds of items to be withheld or markets to be boycotted.

-- The need and desire for multilateral sponsorship and the willingness of other states to participate.

-- The economic and political effects of sanctions on the offending country.

-- The degree of the target country's commitment to the action that triggered the sanctions.

Which of these elements must actually be considered depends heavily on the precise goals of the sanctions. If the objective is to demonstrate disapproval, only the first two are pertinent; punishment, in addition to the first two elements, requires assessment of the economic impact, while an attempt to change a country's behavior requires consideration of all four elements. [redacted] 25X1

While such a view is conceptually simple, in reality it proves extremely complex. Even the most careful planning process is unlikely to take fully into account all of the political and economic dynamics associated with the use of economic sanctions. If nothing else, the case studies of sanctions revealed that miscalculation, misunderstanding, or failure to take all of the key elements into account have caused sanctions to fail, sometimes with serious adverse economic consequences for their sponsor. [redacted] 25X1

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ANNEX B

Nicaraguan Exports

Table 1

Nicaraguan Exports to the World, 1982

	Value ($ million)	% of Total
World	370.0	100.0
Top Ten Partners	299.0	79.1
US	82.0	22.0
West Germany	52.0	14.0
Japan	43.0	11.0
Costa Rica	25.0	7.0
China	20.0	5.0
France	19.0	5.0
Netherlands	16.0	4.0
Guatemala	14.0	3.7
Mexico	14.0	3.7
Spain	14.0	3.7

Nicaraguan Exports to the World, 1975-77

	Value ($ million)	% of Total
World	514.3	100.0
Top Ten Partners	428.1	83.1
US	140.0	27.2
Japan	63.0	12.2
W. Germany	57.3	11.1
Costa Rica	43.0	8.4
Guatemala	29.3	5.7
El Salvador	27.6	5.4
Netherlands	21.0	4.0
Belgium-Luxembourg	20.6	4.0
Honduras-Belize	15.0	2.9
Hong Kong	11.3	2.2

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Table 2
Nicaraguan Exports to the United States, 1982

Commodity	Value ($ million)	% of Total Exports
Meat	31.0	37.0
Fish	16.0	19.5
Sugar	13.0	15.8
Fruit	10.0	12.2
Tobacco	5.0	6.1
Processed Food	4.0	4.8
Coffee	3.0	3.6
Soybeans	1.0	1.2
Vegetables	Less than 1	Less than 1.0
Chemical Elements	Less than 1	Less than 1.0

Nicaraguan Exports to the United States, 1975-77

Commodity	Value ($ million)	% of Average Total
Sugar	39.3	28
Meat	32.6	23.3
Coffee	21	15
Fish	20.3	14.5
Tobacco	5.6	4
Fruit	5	3.6
Non-Ferrous Ore	3	2.1
Clothing	2	1.4
Fabrics	1.3	Less than 1.0
Cotton	1.3	Less than 1.0

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Table 3
Nicaragua Exports to the World by Commodity Group

Foodstuff Exports, 1982

	Value ($ million)	% of Total
World	247.0	100.0
Top Ten Partners	212.0	85.6
US	82.0	33.2
West Germany	46.0	18.6
Netherlands	16.0	6.4
Mexico	14.0	5.7
Spain	14.0	5.7
France	11.0	4.4
USSR	8.0	3.2
Costa Rica	8.0	3.2
Italy	7.0	2.8
Guatemala	6.0	2.4

Foodstuff Exports, 1975-77

	Value ($ million)	% of Average Total
World	280.3	100
Top Ten Partners	254.3	90.4
US	127.6	45.5
West Germany	47.3	16.8
Belgium-Luxembourg	19.0	6.7
Netherlands	18.6	6.6
Costa Rica	17.6	6.3
Japan	6.6	2.3
Guatemala	6.0	2.1
France	4	1.4
Italy	4	1.4
Mexico	3.6	1.3

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Table 3 (continued)
Manufactures Exports, 1982

	Value ($ million)	% of Total
World	30.0	100.0
Top Ten Partners	30.0	100.1
Costa Rica	15.0	50.0
Guatemala	6.0	20.0
El Salvador	4.0	13.0
Honduras-Belize	3.0	10.0
Panama	1.0	3.3
Cuba	1.0	3.3
Japan	less than 1	less than 1.0
US	less than 1	less than 1.0
West Germany	less than 1	less than 1.0
Netherlands	less than 1	less than 1.0

Manufactures Exports, 1975-77

	Value ($ million)	% of Average Total
World	82.5	100
Top Ten Partners	82.6	95.7
Guatemala	22.3	26.1
Costa Rica	22.0	25.8
El Salvador	21.6	25.3
Honduras-Belize	9.6	11.2
US	6.3	7.3
Venezuela	0.3	less than 1.0
Canada	0.2	less than 1.0
Panama	0.2	less than 1.0
Mexico	less than 0.1	less than 1.0

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Table 3 (continued)
Fuels Exports, 1982

	Value ($ million)	% of Total
World	4.95	100.0
Top Ten Partners	4.92	98.5
Costa Rica	1.88	38.0
Guatemala	1.71	34.5
El Salvador	0.79	16.0
Netherlands	0.19	3.8
Honduras-Belize	0.18	3.6
Cuba	0.13	2.6
Panama	0.04	less than 1
Mexico	less than 0.01	less than 1
US	less than 0.01	less than 1

Fuels Exports, 1975-77

	Value ($ million)	% of Total
World	1.56	100.0
Top Ten Partners	1.56	98.9
Costa Rica	1.21	77.0
Honduras-Belize	0.174	11.1
El Salvador	0.09	5.7
Guatemala	0.06	3.8
US	0.02	1.3
Panama	less than 0.01	less than 1.0
Finland	less than 0.01	less than 1.0
France	less than 0.01	less than 1.0
Greece	less than 0.01	less than 1.0

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Table 3 (continued)
Raw Materials Exports, 1982

	Value ($ million)	% of Total
World	87.9	100.0
Top Ten Partners	85.7	96.6
Japan	38.1	43.3
China	19.5	22.1
France	8.1	9.2
Taiwan	7.5	8.5
West Germany	6.5	7.4
Belgium-Luxembourg	3.0	3.4
Honduras-Belize	1.5	1.7
Italy	0.9	1.0
Guatemala	0.6	less than 1.0

Raw Materials Exports

	Value ($ million)	% of Average Total
World	146.8	100.0
Top Ten Partners	121.4	82.3
Japan	56.3	38.3
Taiwan	11.8	8.0
Hong Kong	10.9	7.4
West Germany	9.5	6.5
China (PRC)	8.2	5.5
Italy	6.4	4.3
US	6.3	4.2
Spain	5.9	4.0
Thailand	3.5	2.4
India	2.6	1.7

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The options most costly to Nicaragua would probably be seizure of deposits and attachment of their planes. The Nicaraguan Government and bank deposits only totaled roughly $8 million at the end of June. Attaching Aeronica's jets would reap the banks little money, in view of their poor condition. One could be seized while it was on a Miami runway, but after that the Nicaraguans would probably avoid landing in the US. This would make it substantially more difficult and more costly for Nicaragua to maintain passenger and cargo traffic with the United States. If services to and from the US were taken over by another airline, it would cost the Nicaraguans more in hard currency than running their own airline does. Direct service from Europe and Latin America is already provided by foreign airlines. [redacted] 25X1

Attaching Nicaraguan merchant ships would be more difficult because they make no regular calls at US ports. If they were to be seized in a third country's ports, cooperation from the local government would be required. Loss of these small freighters would hamper the offloading of ocean-going vessels on the Atlantic coast. Currently, ocean-going ships must transfer their cargo to the Nicaraguan ships, which are small enough to enter the ports. Loss of their one tanker would also impede fuel delivery to the Atlantic coast. Currently, the only way to supply that coast is by loading fuel at Corinto and shipping it via the Panama Canal to the Atlantic ports. [redacted] 25X1

[redacted] unless the several West European banks currently offering trade financing and letters of credit to Nicaragua joined in a united effort against Nicaragua, its trade with Europe would be unaffected. (A large share of Nicaraguan coffee and cotton exports are sold to Western Europe.) We expect that Deutsche Sud-Amerikanische Bank and Banque Suisse would probably join the race for Nicaraguan assets should another bank initiate action. The choice would pose something of a dilemma for the government-owned Banque Nationale de Paris, which would be confronted with the likelihood of losing any claims it has on Nicaraguan assets. However, we judge that in the event US banks decided to seize Nicaraguan assets, Banque Nationale, and possibly other French banks would be directed by President Mitterrand's government to continue offering normal trade financing and other services to Managua. 25X1

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ANNEX D

Nicaragua: Declining Levels of Foreign Assistance

While total foreign financial assistance to Nicaragua has continued to grow for a number of years, the level of aid from non-Communist countries has begun to decline. With a few exceptions, we believe that most developed and Latin nations will continue to scale back financing as their government leaders becomes more pessimistic about their ability to buy political moderation in Managua. Although Soviet and East European support is expanding substantially we do not believe that it will fully compensate for the loss of Western funds. [redacted] 25X1

Latin Support Tumbles

Financing from Latin America has fallen dramatically this year, largely due to concern among leaders in the region about the regime's repressive policies and its closer ties with Cuba and Eastern Europe. Their domestic financial crises also incline Latin leaders to take a harder look. We expect Latin American economic support to reach $148-158 million this year, compared to about $220 million in 1983. We project a further decline in the total again next year. [redacted] 25X1

Mexico, Nicaragua's largest Latin donor since the 1979 revolution, has slashed its aid from about $150 million in 1983 to at most $90 million this year. We believe President de la Madrid's cutback was prompted in part by a willingness to respond to bottom-line US concerns, in part by Mexico's own financial problems, and in part by his own dissatisfaction with the direction of the Nicaraguan revolution. The primary vehicle for the cutback has been the decrease in Mexican oil shipments, which until this year had been supplied on credits that neither side anticipated would ever be repaid. We expect that Mexican oil shipments this year will reach at most $80 million, down from roughly $130 million last year. [redacted] 25X1

Financing from **Venezuela** and **Brazil**, which were substantial donors in the early years of Sandinista rule, fell to about $10 million apiece in 1983 and will drop again to roughly $5 million each this year. Nicaragua's credit lines with Brazil are now exhausted and will unlikely be renewed. [redacted] 25X1

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Argentina is the only Latin American nation to have substantially increased its credits this year, and that also seems likely to be cut back after November. President Alfonsin, arguing that economic leverage might induce the Sandinistas to open the political process, agreed in March to a $45 million line of credit. Argentine aid had previously been limited to a credit line extended in appreciation for Nicaragua's support during the 1982 Falklands war for the year as a whole we expect Nicaragua to draw on this credit line for about $25 million. We believe that Buenos Aires expects some political liberalization for its money, however. Should the regime adopt more repressive tactics on civil liberties and political opposition after the November elections Alfonsin in turn would probably discreetly scale down disbursements under the current credit and take a harder stance in the future. [redacted] 25X1

Slowdown from the West

Economic support from the West has probably also reached its peak, but will decline more slowly than has Latin financing. We estimate that assistance from Western industrial nations will total $84 million this year, down about $4-19 million from 1983, and that it will decline again next year. [redacted] 25X1

Few leaders of Western industrial nations remain persuaded that their assistance can be used as leverage to induce the Sandinistas to adopt a different political course, and the regime's repeated failure to fulfill its promises regarding domestic liberalization is prompting several European countries to scale down their economic support. For some leaders, however, continuing financial gestures to the Sandinistas will remain a relatively cheap way to shore up their support from the left at a time when they are struggling to implement more important policies--such as austerity in France or NATO membership and US base rights in Spain--that face heavy leftist opposition. [redacted] 25X1

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[redacted]

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Spain has been one of Nicaragua's most consistent financial supporters, disbursing by our estimates, some $10-20 million in supplier credits and humanitarian aid every year since the 1979 revolution. Madrid also rescheduled Managua's $62 million bilateral debt in early 1981 on fairly easy terms, and forgave $2.3 million in overdue interest, according to the US Embassy in Managua. Madrid's current program--a $45 million, 3-year line of supplier credits--will expire in 1986. Nicaragua has been trying to negotiate a second, $5 million line from Madrid [redacted] 25X1 25X1

We doubt that Madrid will grant the additional credits soon or be willing to renew the $45 million package after the current one expires. Since it was announced in mid-1983, we believe that Prime Minister Gonzalez has become increasingly disillusioned about the nature of Sandinista rule. Moreover, we believe that Gonzalez--like Argentina's Alfonsin--might discreetly slow the pace of disbursements should there be a return to substantially tougher domestic policies after the Nicaraguan elections. Thus, we project that Spanish financing in 1984 will probably reach $8-10 million, in contrast to an estimated $15-20 million last year. [redacted] 25X1

We expect **French** support, by contrast, to remain at roughly constant or only slightly lower levels next year. We estimate French assistance at $18-22 million in both 1983 and 1984. Should plans for a new geothermal project go forward next year, Paris would lend $9 million toward its cost, and probably provide some $10 million in other assistance. We believe that emerging French concern over Nicaragua's political direction, however, will at a minimum preclude Paris from significantly increasing its financing, and perhaps induce a gradual decline. [redacted] 25X1

France is the only West European power to have granted military assistance since the revolution--$16 million in a mix of credits and grants in 1981. There is almost no prospect that more such aid will be forthcoming. [redacted] 25X1

Aid from **other Western nations** will remain roughly constant this year. $8 million in Austrian aid in 1983 will probably not be repeated

[redacted] 25X1

this year. Canadian assistance may total $13 million, roughly double 1983 levels, but almost half the money is to go for a water purification project which does nothing to ease Managua's most pressing problems of paying for consumer and industrial imports. [redacted] 25X1

Declining Multilateral Aid

Prospects of substantial funding from multilateral sources are becoming increasingly poor. Nicaragua is currently some $10 million in arrears to the International Monetary Fund, which this summer cut off Nicaragua's access to Fund resources until the books are cleared of arrearages. Similarly, Managua's roughly $6 million arrearages to the World Bank recently prompted Bank management to declare Nicaragua in default--the first such country in Bank history [redacted] 25X1
[redacted] Bank rules specify that no disbursements can be made to countries in default. Bank president Clausen also reportedly intends to warn the Nicaraguans that they must also clear up their IMF arrearages before regaining good standing with the Bank. In the year ended June 30, 1983, the Bank disbursed about $16 million to Nicaragua, and we believe that roughly $3 million in currently-approved Bank lending is being held up by the default. Disbursements from the Inter-American Development Bank will probably total some $20 million in the year ending June 30, 1985, down from the previous year's $33 million. [redacted] 25X1

The Soviet Response

We expect total Communist financing to reach $470 million this year, compared to $270 million in 1983. Moscow and its Communist allies have increased their support substantially this year, in part to help compensate for the decline from other sources. The most important example is Moscow's decision to make up entirely for the decline in Mexican oil deliveries. We estimate that Soviet oil deliveries will total some $85 million this year, up from just $2 million in 1983. In a marked departure from usual Soviet policy, we believe that Moscow is requiring little or no immediate payment for the petroleum. It seems most unlikely that Managua will repay any substantial part of its debts to the USSR over the next several years. We expect disbursements of non-oil economic assistance from the Communist countries to reach some $135 million this year, down slightly from about $165 million in 1983. This aid is mainly supplier credits for manufactured goods, but also includes substantial technical assistance and some donations of foodstuffs and fertilizers. In addition, we have noted a few instances of actual loans or donations of hard currency from Cuba, but believe that these remain relatively small. We

[redacted] 25X1

estimate that financial assistance for military purchases will reach $250 million. [redacted] 25X1

In general, however, Communist help is a poor substitute for Western assistance. A shipment of Soviet aviation fuel, for instance, was reported by several sources to be of such poor quality that it was damaging airplane engines. A wide variety of sources have reported persistent problems with the quality of Communist-origin goods. The quality of technical assistance also appears to be inferior. [redacted] 25X1

Uncertain Support From the Middle East

Although three Middle Eastern nations have provided some economic support in the past, we do not believe that any of them will be reliable partners in the future. In 1983, **Algeria** agreed to pay preferential prices for Nicaraguan sugar after the United States slashed Managua's sugar quota, an arrangement that should have netted the Nicaraguans roughly $14 million. Reporting from a variety of sources, however, indicates that the deal has not been as remunerative as Managua expected, and we doubt that Algeria will provide substantial new aid in the future. [redacted] 25X1

In both 1982 and 1983, **Iran** lent Nicaragua roughly $27 million by allowing Nicaragua to resell a tankerload of Iranian crude and deferring payment from Managua until 1985 and 1986. [redacted] 25X1
[redacted] Iran has been very late in paying for some of its imports 25X1
from Nicaragua and the prospect of another oil loan next year is uncertain at best. In 1981 [redacted] **Libya** lent Managua $100 25X1
million and since then may have contributed additional money for construction of a new sugar mill. Qadhafi's record in keeping promises of financial aid is poor, however, and we doubt that the regime is counting on much if any additional money from Tripoli. [redacted] 25X1

Implications

On balance, even if the dollar value of Communist aid rises substantially, we doubt that it will fully compensate for the decline in aid from other sources. These trends will markedly affect both popular living standards in the short run and the country's industrial base over the somewhat longer term. [redacted] 25X1

Discontent over worsening living standards erupted in a flurry of work stoppages in August and September, shortly after the regime restored the right to strike. The Sandinistas have taken a very hard line, however, threatening to declare one strike illegal and refusing to negotiate on several others until workers returned to work. Rather than

[redacted] 25X1

again revoking the right to strike after the elections, and incurring additional international disapproval, we expect the regime to continue with the less visible, but still hard-line tactics it has used recently. The Sandinistas may also attempt a strategy of dividing the workers by providing substantial pay raises to non-strikers. As living conditions continue to worsen, however, and most wage hikes are wiped out by inflation that may reach 90 percent this year, we expect more labor unrest, and some additional marketplace disruptions. [redacted] 25X1

The problem is exacerbated by the Sandinistas' unwillingness or inability to revive the economy. We foresee little if any change in domestic policies, which have consistently tended to increase the government's role in business decisions and to claim additional sectors of commerce and industry as the exclusive preserve of the state. [redacted] 25X1

25X1

Table 1

Projected Official Foreign Financing to Nicaragua in 1984

(million US $)

Total: 760-790

Western Europe	67-84
Austria	2-3
Finland	4
France	18-22
Italy	2-4
Netherlands	14-18
Norway	8
Spain	8-10
Sweden	11
West Germany	2-4

Western Hemisphere	148-158
Argentina	25
Brazil	5
Canada	13
Colombia	5-10
Mexico	90
Peru	5-10
Venezuela	5

Communist Countries	470
For:	
Oil	85
Weapons	250
Other	135

Other	47
Algeria	14
Iran	27
Japan	3
Taiwan	3

Multilateral	26-31
World Bank	2-6
Inter-American Development Bank	20
European Economic Community	3-4
UN Food and Agriculture Organization	1

25X1

25X1

[redacted]

ANNEX E

Nicaraguan Imports

Table 1

Nonmilitary Imports -- 1982
(Million US $ CIF)

	Total	Consumer Goods	Petroleum and products	Intermediate Raw Materials	Machinery and Transport
World	776	171	180	237	238
U.S.	148	37	5	56	50
W. Europe	103	45	0	57	1
Japan	18	0	0	5	13
Canada	50	8	0	3	39
Mexico	154	12	120	11	11
Central America	129	46	7	64	12
South America	57	3	38*	11	5
U.S.S.R	39	1	0	1	37
Other Comm.	50	11	0	21*	18

* Venezuela only.
** Cuba accounts for $17 million.

Table 2

Composition and Trade Partners
(million US $)

	Average 1975-77		1982	
	$	% of Total	$	% of Total
CONSUMER GOODS of which:	128.6	---	171	---
FOOD	48.0	100	95	100
W. Europe	3.0	6.2	32	33.7
France	0	0	13	13.7
Ireland	0	0	8	8.4
Netherlands	0	0	6	6.3
United States	21.0	43.7	28	29.4
Latin America	22.3	46.4	18	18.9
Costa Rica	9.0	18.7	7	7.3
Guatemala	7.0	14.6	6	6.3
Cuba	0	0	5	5.3
OTHER FINISHED GOODS	80.6	100	76	100
W. Europe	13.3	16.5	13	17.1
Spain	2.0	2.5	6	7.9
W. Germany	4.3	5.3	3	3.9
Switzerland	2.6	3.2	3	3.9
United States	15.0	18.6	9	11.8
Latin America	49.6	61.5	43	56.5
Costa Rica	13.0	16.1	12	15.8
Guatemala	13.3	16.5	10	13.1
Bulgaria	0	0	4	5.2
PETROLEUM AND OTHER FUELS	82.6	100	180	100
Mexico	0	0	120	66.6
Venezuela	68.6	83.0	38	21.1
Panama	3.0	3.6	6	3.3
United States	4.6	5.5	5	4.1

25X1

	Average 1975-77 $	Average 1975-77 % of Total	1982 $	1982 % of Total
INTERMEDIATE RAW MATERIALS	217.3	100	237	100
Latin America	75.3	34.6	86	36.3
Guatemala	19.3	8.8	26	10.9
Costa Rica	22.6	10.4	22	9.3
W. Europe	42.6	19.6	57	24.0
France	2.0	0.9	17	7.2
W. Germany	18.3	8.4	12	5.0
Italy	2.3	1.0	8	3.4
Spain	1.0	0.5	7	2.9
United States	71.6	32.9	56	23.6
Cuba	0	0	17	7.2
Mexico	4.3	1.9	11	4.6
Japan	16.6	7.6	5	2.1
MACHINERY AND TRANSPORT GOODS of which:	174.3	---	188	---
MACHINERY	114.3	100	138	100
United States	55.3	48.4	44	31.8
W. Europe	30.0	26.2	35	25.4
W. Germany	13.0	11.4	11	7.9
Italy	4.6	4.0	11	7.9
Spain	4.6	4.0	6	4.3
USSR	0	0	16	11.6
Mexico	2.6	2.3	7	5.0
E. Germany	0	0	6	4.3
Japan	13.3	11.6	5	3.6
TRANSPORT GOODS	60	100	50	100
USSR	0	0	21	42.0
Japan	20.3	33.8	8	16.0
United States	17.6	29.3	6	12.0
W. Europe	17.0	28.3	4	8.0
Spain	9.0	15.0	2	4.0
W. Germany	3.0	5.0	1	2.0
Mexico	2.6	4.3	4	8.0
E. Europe	0	0	2	4.0
E. Germany	0	0	2	4.0

Table 3

Composition of Imports
(in percent)

	1979	1980	1981	1982	1983 [1]
Total Imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Consumer Goods	**27.0**	**29.1**	**24.3**	**20.6**	**20.1**
Nondurable	21.6	24.2	19.6	15.0	14.7
Durable	5.4	4.8	4.7	5.6	5.4
Intermediate Goods [2]	**39.1**	**38.3**	**35.2**	**34.6**	**33.7**
Inputs for agriculture	4.3	7.0	5.6	4.5	5.0
Inputs for industry	30.7	28.0	26.3	24.1	24.8
Construction materials	4.1	3.3	3.4	6.0	3.9
Petroleum Products	**21.0**	**19.6**	**19.8**	**23.0**	**22.2**
Crude and partially refined	18.2	16.7	17.3	19.1	15.6
Derivatives	2.8	2.9	2.5	3.9	6.6
Capital Goods	**12.8**	**12.4**	**20.1**	**21.5**	**23.9**
Agriculture	1.2	2.7	3.0	3.2	4.5
Industry	8.7	6.9	12.1	14.0	15.0
Transportation equipment	2.9	2.8	5.0	4.3	4.4
Other	**0.1**	**0.7**	**0.6**	**0.1**	**0.1**

(Source: IMF Statistics)

1 Projections.
2 Excluding petroleum products.

CONFIDENTIAL

The Director of Central Intelligence
Washington, D.C. 20505

NIC 02372-85
7 May 1985

National Intelligence Council

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Robert D. Vickers, Jr.
National Intelligence Officer for Latin America

SUBJECT: Implementation of Nicaraguan Sanctions

1. The proposed regulations to implement the sanctions against the government of Nicaragua have still not been agreed upon. The proposals currently contain a section exempting contracts for imports or exports signed prior to May 1, 1985. (See Attachment A)

2. I firmly believe that the sanctions should apply to all contracts, including those signed prior to May 1, 1985. [redacted] that the Sandinistas were making strenuous efforts prior to May 1 to prepare for a possible embargo. In [redacted] 25X1 25X1 25X1

3. I suggest you contact Admiral Poindexter and indicate to him that from the standpoint of the CIA, intelligence indicates that the sanctions would have greatest impact only if they apply to all contracts, and not just those concluded after May 1, 1985.

done was advised of final decision

Robert D. Vickers

[redacted] 25X1

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EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR		X		
4	D/ICS		X		
5	DDI		X		
6	DDA		X		
7	DDO		X		
8	DDS&T		X		
9	Chm/NIC				
10	GC		X		
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL		X		
15	D/PAO		X		
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO /LA		X		
20	VC/NIC		X		
21	D/ALA/DI		X		
22	C/LA/DO		X		

SUSPENSE ______________ Date

Remarks

STAT

Executive Secretary

8 May 85

Date

3637 (10-81)

Approved For Release 2009/08/19 : CIA-RDP87M00539R001802770023-9

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THE WHITE HOUSE

WASHINGTON

Executive Registry

85- 1843/1

May 7, 1985

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE AGENCY
UNITED STATES TRADE REPRESENTATIVE

SUBJECT: Implementation of Nicaraguan Economic Sanctions With Regard to Contract Sanctity

The President's Executive Order of May 1, 1985 invoked the International Emergency Economic Powers Act (IEEPA) to put into effect an embargo on all Nicaraguan trade in goods and services with the United States. The E.O. was effective as of 12:01 a.m. EDT, May 7, 1985.

The President has determined that all commercial contractual commitments between the U.S. and Nicaragua will be terminated simultaneous with activation of the Trade Embargo against Nicaraguan goods and services. The President also has determined that the regulations to implement the trade embargo will permit the following exceptions with regard to contractual commitments entered into before May 1, 1985:

(1) With regard to imports from Nicaragua to the United States, shipment may be completed if it can be demonstrated that the importer made a downpayment prior to May 1, 1985.

(2) With regard to exports, contract sanctity will be allowed until November 1, 1985 only if one of the following three conditions applies:

-- Goods already in transit from the United States to Nicaragua.

-- Companies that can demonstrate that failure to comply with contractual obligations with Nicaraguan importers will leave them with goods in inventory which cannot be sold elsewhere.

DCI EXEC REG

C-387

-- Companies whose export commitments are guaranteed under an outstanding performance bond which can be successfully invoked by Nicaraguan importers.

FOR THE PRESIDENT:

for Robert C. McFarlane

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
A/1	DCI		X		
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO		X		
8	DDS&T				
9	Chm/NIC				
10	GC		X		
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL		X		
15	D/PAO		X		
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO /LA		X		
20	NIO/ECON		X		
21	D/ALA/DI		X		
22	C/LA/DO		X		
	SUSPENSE				

Date

Remarks CIA had no comments on this.

STAT

Executive Secretary

6 May 85

Date

3637 (10 81)

3672

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
85- 1843

May 6, 1985

MEMORANDUM FOR ROBERT M. KIMMITT
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

SUBJECT: Foreign Assets Control Regulations to Implement the Nicaraguan Sanctions

Pursuant to your request, attached are the proposed regulations that are intended to implement the sanctions against the Government of Nicaragua that President Reagan ordered on May 1, 1985.

Please note that time is of the essence in achieving clearance for the regulations or in redrafting them to reflect any policy changes. Inasmuch as the sanctions are to become effective tonight at 12:01 a.m., EDT, May 7, the speediest possible decision will contribute to the smooth and fair implementation of them.

Edward J. Stucky

Edward J. Stucky
Acting Executive Secretary

Attachment

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EXEC
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5/6/85
3:45 pm

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

31 C.F.R. Part 540

Nicaraguan Trade Control Regulations

AGENCY: Office of Foreign Assets Control, Department of the Treasury

ACTION: Final Rule

SUMMARY: On May 1, 1985, the President issued Executive Order 12513, declaring a national emergency with respect to Nicaragua, invoking the authority of the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.), ordering specified controls with respect to Nicaragua, and delegating his authority under that Act to the Secretary of the Treasury. In implemention of that order, the Treasury Department is issuing the Nicaraguan Trade Control Regulations. These Regulations: a) prohibit imports into the United States of goods and services of Nicaraguan origin; b) prohibit exports from the United States of goods to Nicaragua, except those for the organized democratic resistance; c) prohibit vessels of Nicaraguan registry from entering U.S. ports; d) prohibit transport by Nicaraguan air carriers to or from the United States; and e) prohibit transactions relating to the preceding prohibitions.

EFFECTIVE DATE: 12:01 a.m. Eastern Daylight Time, May 7, 1985

FOR FURTHER INFORMATION: Contact Raymond W. Konan, Chief Counsel, Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220, Tel. (202) 376-0236.

SUPPLEMENTARY INFORMATION: Since the regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date, are inapplicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act, 5 U.S.C. 601, _et seq_., does not apply. Because the regulations are issued with respect to a foreign affairs function of the United States, they are not subject to Executive Order 12291 of February 17, 1981, dealing with Federal Regulations. These regulations are not subject to the Paperwork Reduction Act of 1980, 44 U.S.C. 3501 _et seq_.

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

31 CFR Part 540

Nicaraguan Trade Control Regulations

Subpart D -- Interpretations

Section 540.401 Offshore transactions.

Section 540.402 Technical data.

Section 540.403 Imports of services of Nicaraguan origin.

Section 540.404 Transshipment through United States prohibited.

Section 540.405 Transshipment through third countries prohibited.

Section 540.406 Exports through third countries prohibited.

Section 540.407 Imports into bonded warehouse or foreign trade zone.

Section 540.408 Release from bonded warehouse or foreign trade zone.

Section 540.409 Import and export of goods in transit before the effective date.

Section 540.410 Transactions relating to unprohibited offshore transactions

Subpart E -- Licenses, Authorizations and Statements of Licensing Policy

Section 540.502 Effect of license or authorization.

Section 540.503 Exclusion from licenses and authorizations.

Section 540.505 Prior contractual commitments.

Section 540.504 Goods paid for prior to May 1, 1985.

Section 540.533 Certain exports authorized.

Section 540.534 Certain imports for diplomatic or official personnel authorized.

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Subpart F -- Reports

Subpart G -- Penalties

Subpart H -- Procedures

Section 540.808 Customs procedures: merchandise specified in Section 540.204.

Section 540.809 Rules governing availability of information.

Subpart A -- Relation of This Part to Other Laws and Regulations

Section §40.101 Relation of this part to other laws and regulations.

(a) This part is independent of Parts 500, 505, 515, 520, and 535 of this chapter. Those parts do not relate to Nicaragua. No license or authorization contained in or issued pursuant to those other parts authorizes any transaction prohibited by this part. In addition, licenses or authorizations contained in or issued pursuant to any other provision of law or regulations do not authorize any transaction prohibited by this part.

(b) No license or authorization contained in or issued pursuant to this part relieves the involved parties from complying with any other applicable laws or regulations. For example, no license or authorization contained in or issued pursuant to this part authorizes the export of goods or the export of technical data for which a validated license would be required under the Export Administration Regulations (15 C.F.R. Part 368 *et seq.*) in the absence of such validated license.

Subpart B -- Prohibitions

Section 540.204 Prohibited imports of goods and services from Nicaragua.

Except as authorized by regulations, rulings, instructions, licenses, or otherwise, the following may not be imported into the United States:

(a) services of Nicaraguan origin; or

(b) goods of Nicaraguan origin.

Section 540.205 Prohibited exports of goods to Nicaragua.

Except as authorized, no goods may be exported from the United States either to or destined for Nicaragua, except those for the organized democratic resistance, and except donated articles such as food, clothing, and medicine, intended to be used to relieve human suffering.

Section 540.206 Prohibited transactions with Nicaraguan vessels.

Vessels of Nicaraguan registry are prohibited from entering into United States ports.

Section 540.207 Prohibited transactions with Nicaraguan air

carriers.

Nicaraguan air carriers are prohibited from providing air transportation to or from points in the United States.

Section 540.208 Prohibited related transactions.

(a) No person may order, buy, receive, conceal, store, use, sell, loan, dispose of, transfer, transport, finance, forward, or otherwise service, in whole or in part, any commodity or technical data subject to the prohibitions of this part, with knowledge or reason to know that a violation of the International Emergency Economic Powers Act or any regulation, order, or license has occurred, is about to occur, or is intended to occur with respect to such commodity or technical data.

(b) Payments are not prohibited if the transaction to which they relate is not prohibited.

Section 540.209 Evasions; effective date.

(a) Any transaction for the purpose of, or which has the effect of, evading or avoiding any of the prohibitions set forth in this subpart is hereby prohibited.

(b) Unless otherwise specified, the prohibitions in this part shall be effective from 12:01 a.m., Eastern Daylight Time,

May 7, 1985.

Subpart C -- General Definitions

Section 540.301 Effective date.

The term "effective date" means 12:01 a.m., Eastern Daylight Time, May 7, 1985.

Section 540.302 Nicaragua; Nicaraguan.

The term "Nicaragua" means the country of Nicaragua and any Nicaraguan territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof, or any territory which is controlled or occupied by the military, naval or police forces or other authority of Nicaragua. The term "Nicaraguan" means pertaining to Nicaragua as defined in this section.

Section 540.308 Person.

The term "person" means an individual, partnership, association, corporation or other organization.

Section 540.316 Nicaraguan origin.

The term "goods or services of Nicaraguan origin" includes:

(a) goods produced, manufactured, grown, or processed within

Nicaragua;

(b) goods which have entered into Nicaraguan commerce; and

(c) services performed in Nicaragua or by a Nicaraguan national. However, the term "services of Nicaraguan origin" does not include diplomatic and consular services performed on behalf of the Nicaraguan Government.

Section 540.321 United States.

The term "United States" means the United States and all areas under the jurisdiction or authority thereof, including the Trust Territory of the Pacific Islands.

Subpart D -- Interpretations

Section 540.401 Offshore transactions.

(a) The prohibitions contained in section 540.204 do not apply to the importation into locations outside the United States of goods or services of Nicaraguan origin, except with respect to those destined for the United States which have not been incorporated into foreign manufactured products or otherwise substantially transformed after leaving Nicaragua.

(b) The prohibitions contained in section 540.205 do not apply to the export of goods to or destined for Nicaragua from locations outside the United States, except goods exported from the United States which have not been incorporated into foreign manufactured products or otherwise substantially transformed after leaving the United States.

Section 540.402 Technical data.

The term "goods" shall include, inter alia, technical data in tangible form including, but not limited to, a model, prototype, blueprint, drawing, operating manual, computer software, tape recording, microfiche, or other material in machine readable form. The term "goods" does not apply to oral transmission of technical data in the course of performance of services, telephone communications, lectures, seminars, or plant visits.

Section 540.403 Imports of services of Nicaraguan origin.

(a) Services of Nicaraguan origin are imported into the United States when:

(1) such services are performed in Nicaragua and are contracted for, or on behalf of, a person within the United States and for the benefit of a person within the United States; or

(2) such services are performed in the United States by a national of Nicaragua who is in the United States for purposes of performing such services as an employee or contractor of a business or governmental entity located in Nicaragua.

Example #1: A company located in the United States requests an opinion from a Nicaraguan accounting firm. Section 540.204 prohibits the U.S. firm from contracting for and receiving such an opinion.

Example #2: A company located in the United States contracts with an airline company located in Nicaragua to provide maintenance personnel for the U.S. company's aircraft in the United States. It would be inconsistent with Section 540.204 for the U.S. company to contract for and receive such services.

(b) Services of Nicaraguan origin are not imported into the United States when such services are provided in the United

States by a Nicaraguan national who, during indefinite residency in the United States, works as, for example, a teacher, athlete, restaurant or domestic worker, or a person employed in any other regular occupation.

(c) Section 540.204 does not prohibit a U.S. person from obtaining technical, custodial, legal, accounting, banking, shipping, or other services from Nicaragua when they are to be rendered outside the United States, including in Nicaragua.

Section 540.404 Transshipment through United States prohibited.

(a) The prohibitions in Section 540.204 apply to the import into the United States, for transshipment or transit, of goods which are intended or destined for Nicaragua.

(b) The prohibitions in Section 540.204 apply to the import into the United States, for transshipment or transit, of goods of Nicaraguan origin which are intended or destined for third countries.

Section 540.405 Transshipment through third countries prohibited.

The prohibitions in sections 540.204 and 540.209 apply to the import into the United States of goods of Nicaraguan origin transshipped through other countries without being incorporated

into foreign manufactured products or otherwise substantially transformed.

Section 540.406 Exports through third countries prohibited.

The prohibitions in Sections 540.205 and 540.209 apply to the export from the United States of goods to any country outside the United States where the exporter has reasonable cause to believe that the goods are intended to be exported, directly or indirectly, to Nicaragua without being incorporated into foreign manufactured products or otherwise substantially transformed.

airplane where the goods have left the United States before the effective date.

(c) Payments relating to goods described in paragraph (a) and (b) of this section are authorized, even where such related payments occur after the effective date.

Section 540.410. Transactions relating to unprohibited offshore transactions.

The prohibitions in Subpart B do not extend to transactions by a person located in the United States relating to transactions outside the United States which are themselves not prohibited by Subpart B, such as financial, service or brokerage transactions involving offshore transactions with Nicaragua.

Subpart E -- Licenses, authorization and statements of licensing policy

Section 540.502 Effect of license or authorization.

(a) No license or other authorization contained in this part, or otherwise issued by or under the direction of the Secretary of the Treasury pursuant to section 203 of the International Emergency Economic Powers Act, shall be deemed to authorize or validate any transaction effected prior to the issuance of the license, unless such license or other

authorization specifically so provides.

(b) No regulation, ruling, instruction, or license authorizes a transaction prohibited under this part unless the regulation, ruling, instruction, or license is issued by the Treasury Department and specifically refers to this part. No regulation, ruling, instruction, or license referring to this part shall be deemed to authorize any tranactions prohibited by any provision of Parts 500, 505, 515, 520, or 535 of this chapter unless the regulation, ruling, instruction or license specifically refers to such provision.

(c) Any regulation, ruling, instruction or license authorizing a transaction otherwise prohibited under this part has the effect of removing a prohibition or prohibitions in Subpart B from the transaction, but only to the extent specifically stated by its terms. Unless the regulation, ruling, instruction or license otherwise specifies, such an authorization does not create any right, duty, obligation, claim, or interest in, or with respect to, any property which would not otherwise exist under ordinary principles of law.

Section 540.503 Exclusion from licenses and authorizations.

The Secretary of the Treasury reserves the right to exclude any person from the operation of any license or from the privileges therein conferred or to restrict the applicability

thereof with respect to particular persons, transactions or property or classes thereof. Such action shall be binding upon all persons receiving actual notice or constructive notice thereof.

Section 540.504 Goods paid for prior to May 1, 1985.

(a) All transactions are authorized with respect to the import of goods arriving in the United States after the effective date if the following conditions are met:

(1) the goods were paid for (including by opening an irrevocable letter of credit) prior to May 1, 1985; and

(2) the goods arrived in the United States prior to June 1, 1985.

(b) All transactions are authorized with respect to the export of goods from the United States after the effective date if the following conditions are met:

(1) the goods were paid for (including by opening an irrevocable letter of credit) prior to May 1, 1985; and

(2) the goods left the United States or were completely laden on board a vessel preparatory to leaving the United States prior to June 1, 1985.

(2) All transactions are authorized with respect to the import of services of Nicaraguan origin after the effective date under a binding contract entered into prior to May 1, 1985

Section 540.505 Prior contractual commitments.

under a binding contract entered into prior to May 1, 1985

(b) All transactions are authorized with respect to the import of goods arriving in the United States after the effective date if the following conditions are met:

(1) For ~~Imports~~ imports through May 31, 1985, the importer, freight forwarder, or other authorized person (hereinafter "the importer") certifies to the U.S. Customs Service that the goods are imported under a binding contract entered into prior to May 1, 1985.

(2) For ~~Imports~~ imports from June 1, 1985 through October 31, 1985, the importer makes the following sworn certification to Customs:

In accordance with the provisions of the Nicaraguan Trade Control Regulations, I, being duly authorized to make this certification on behalf of [firm name], do hereby certify that the goods to which this certification pertains are imported under ~~pursuant to~~ a binding contract entered into prior to May 1, 1985.

(Signature)

(Notarial Seal)

under binding contract entered into prior to May 1, 1985

c (~~b~~) All transactions under binding contract entered into prior to May 1, 1985 are authorized with respect to the export of goods from the United States after the effective date if the following conditions are met:

(1) For ~~E~~xports through May 31, 1985, if the exporter, freight forwarder, or other authorized person (hereinafter "the exporter") certifies to the U.S. Customs Service that the goods are imported under a binding contract entered into prior to May 1, 1985.

(2) For ~~E~~xports from June 1, 1985 through October 31, 1985, if the exporter makes the following sworn certification to Customs:

In accordance with the provisions of the Nicaraguan Trade Control Regulations, I, being duly authorized to make this certification on behalf of [firm name], do hereby certify that the goods to which this certification pertains are exported under ~~pursuant to~~ a binding contract entered into prior to May 1, 1985.

____

(Signature)

____

(Notarial Seal)

d (~~e~~) Licenses for exports of U.S. goods or imports of Nicaraguan goods after October 31, 1985, will be considered on a

case-by-case basis where the exports or imports will take place pursuant to a binding contract entered into prior to May 1, 1985. A person seeking such a license is required to apply for the license prior to July 31, 1985 and to include a copy of the relevant binding contract (with English transaction, if necessary) with the application. Such applications normally will be granted absent some compelling national interest to the contrary.

(d) The licenses and licensing policies set forth in this section are subject to review, modification and revocation, in accordance with Section 540.805, as circumstances may warrant.

Section 540.533 <u>Certain exports authorized</u>.

(a) All transactions ordinarily incident to the exportation of any item, commodities, or products from the United States to or destined for Nicaragua, are authorized if such exports are authorized under one or more of the following regulations administered by the Department of Commerce:

(1) 15 C.F.R. Section 371.6, General license BAGGAGE: accompanied and unaccompanied baggage;

(2) 15 C.F.R. Section 371.13, General license GUS: Shipments to personnel and agencies of the U.S. Government;

(3) 15 C.F.R. Section 371.18, General license GIFT: Shipments of gift parcels;

(4) 15 C.F.R. Section 379.3, General license GTDA: technical data available to all destinations;

(5) 15 C.F.R. Section 371.19, General license GATS: relating to foreign-registry civil aircraft (except that transactions relating to Nicaraguan-registered air carriers are not authorized), and to U.S. air carrier aircraft and other U.S.-registry civil aircraft.

(b) All transactions are authorized ordinarily incident to the exportation from the United States to or destined for Nicaragua of the following items descibed as cited:

(1) 15 C.F.R. Section 399.1, Commodity Control List, Group 5, CCL No. 7599I: microfilm that reproduces the content of certain publications, and similar materials.

(2) 15 C.F.R. Section 399.1, Commodity Control List, Group 9, CCL No. 7999I: certain publications and related materials.

Section 540.534 Certain imports for diplomatic or official personnel authorized.

All transactions ordinarily incident to the importation of any goods or services into the United States from Nicaragua are authorized if such imports are destined for official or personal use by personnel employed by Nicaraguan diplomatic missions or

Nicaraguan missions to international organizations located in the United States, and such imports are not for resale.

Section 540.535 Certain services relating to participation in various events authorized.

The importation of services of Nicaraguan origin into the United States is authorized where a Nicaraguan national enters the United States on a visa issued by the State Department for the purpose of participating in a public conference, performance, exhibition or similar event.

Section 540.536 Import of publications authorized.

The importation into the United States is authorized of all Nicaraguan publications, including books, newspapers, magazines, films, phonograph records, tape recordings, photographs, microfilm, microfiche, posters, and similar materials.

Section 540.537 Import of certain gifts authorized.

The importation into the United States is authorized for goods of Nicaraguan origin sent as gifts to persons in the United States where the value of the gift is not more than $100.

Section 540.538 Import of accompanied baggage authorized.

Persons entering the United States directly or indirectly from Nicaragua are authorized to import into the United States personal accompanied baggage normally incident to travel.

Section 540.539 Commercial exports of certain medical supplies.

Commercial exports to Nicaragua of medicines and supplies intended strictly for medical purposes are authorized.

Section 540.540 Exports for humanitarian, educational, and religious purposes.

Applications for specific licenses to export goods to Nicaragua for humanitarian, educational, or religious purposes will be considered on a case-by-case basis.

Section 540.541 Certain exports by intergovernmental organizations.

Applications by intergovernmental organizations in the United States for exportation of U.S. goods to Nicaragua will be considered on a case-by-case basis.

Section 540.542 Telecommunications and mail transactions authorized.

All transactions of common carriers incident to the receipt

or transmission of telecommuniations and mail between the United States and Nicaragua are authorized.

Subpart F -- Reports

Section 540.601 Required Records.

Every person engaging in any transaction subject to the provisions of this part shall keep a full and accurate record of each transaction in which he engages, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination for at least two years after the date of such transaction.

Section 540.602 Reports to be furnished on demand.

Every person is required to furnish under oath, in the form of reports or otherwise, from time to time and at any time as may be required, complete information relative to any transaction, regardless of whether such transaction is effected pursuant to license or otherwise, subject to the provisions of this part. Such reports may be required to include the production of any books of account, contracts, letters or other papers, connected with any such transaction or property, in the custody or control of the persons required to make such reports. Reports with respect to transactions may be required either before or after such transactions are completed. The Secretary of the Treasury may, through any person or agency, investigate any such transaction or property or any violation of the provisions of this part regardless of whether any report has been required or

filled in connection therewith.

Subpart G -- Penalties

Section 540.701 Penalties.

(a) Attention is directed to section 206 of the International Emergency Economic Powers Act, which provides in part:

A civil penalty not to exceed $10,000 may be imposed on any person who violates any license, order, or regulation issued under this title.

Whoever willfully violates any license, order, or regulation issued under this title shall, upon conviction, be fined not more than $50,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

This section of the International Emergency Economic Powers Act is applicable to violations of any provision of this part and to violations of the provisions of any license, ruling, regulation, order, direction, or instruction issued by or pursuant to the direction or authorization of the Secretary of the Treasury pursuant to this part or otherwise under the International Emergency Economic Powers Act.

(b) Attention is also directed to 18 U.S.C. 1001, which provides:

Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representation or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than five years, or both.

Section 540.702 Detention of shipments.

Import shipments into the United States of goods of Nicaraguan origin in violation of Section 540.204 and export shipments from the United States of goods to or destined for Nicaragua in violation of Section 540.205 shall be detained. No such import or export shall be permitted to proceed, except as specifically authorized by the Secretary of the Treasury. Such shipments shall be subject to licensing, penalties, or forfeiture action, under the Customs laws or other applicable provision of law, depending on the circumstances.

Subpart H -- Procedures

Section 540.801 Licensing.

(a) General licenses. General licenses have been issued authorizing under appropriate terms and conditions certain types of transactions which are subject to the prohibitions contained in Subpart B of this part. All such licenses are set forth in Subpart E of this part. It is the policy of the Office of Foreign Assets Control not to grant applications for specific licenses authorizing transactions to which the provisions of an outstanding general license are applicable. Persons availing themselves of certain general licenses may be required to file reports and statements in accordance with the instructions specified in those licenses.

(b) Specific licenses.

(1) General course of procedure. Transactions subject to the prohibitions contained in Subpart B of this part which are not authorized by general license may be effected only under specific licenses. The specific licensing activities of the Office of Foreign Assets Control are performed by its Washington Office and by the Federal Reserve Bank of New York.

(2) Applications for specific licenses. Applications for specific licenses to engage in any transaction prohibited by or

pursuant to this part are to be filed in duplicate on Form with the Federal Reserve Bank of New York. Any person having an interest in a transaction or proposed transaction may file an application for a license authorizing such transaction, and there is no requirement that any other person having an interest in such transaction shall or should join in making or filing such application.

(3) Information to be supplied. The applicant must supply all information specified by the respective forms and instructions. Such documents as may be relevant shall be attached to each application as a part of such application except that documents previously filed with the Office of Foreign Assets Control may, where appropriate, be incorporated by reference. Applicants may be required to furnish such further information as is deemed necessary to a proper determination by the Office of Foreign Assets Control. If an applicant or other party in interest desires to present additional information or discuss or argue the application, he may do so at any time before or after decision. Arrangements for oral presentation should be made with the Office of Foreign Assets Control.

(4) Effect of denial. The denial of a license does not preclude the reopening of an application or the filing of a further application. The applicant or any other party in interest may at any time request explanation of the reasons for a denial by correspondence or personal interview.

(5) Reports under specific licenses. As a condition upon the issuance of any license, the licensee may be required to file reports with respect to the transaction covered by the license, in such form and at such times and places as may be prescribed in the license or otherwise.

(6) Issuance of license. Licenses will be issued by the Office of Foreign Assets Control acting on behalf of the Secretary of the Treasury or by the Federal Reserve Bank of New York, acting in accordance with such regulations, rulings and instructions as the Secretary of the Treasury or the Office of Foreign Assets Control may from time to time prescribe, in such cases or classes of cases as the Secretary of the Treasury or the Office of Foreign Assets Control may determine, or licenses may be issued by the Secretary of the Treasury acting directly or through any designated person, agency, or instrumentality.

Section 540.803 Decisions.

The Office of Foreign Assets Control or the Federal Reserve Bank of New York will advise each applicant of the decision respecting filed applications. The decision of the Office of Foreign Assets Control acting on behalf of the Secretary of the Treasury with respect to an application shall constitute a final agency action.

Section 540.805 Amendment, modification, or revocation.

The provisions of this part and any rulings; licenses, whether general or specific; authorizations; instructions; orders; or forms issued hereunder may be amended, modified, or revoked at any time.

Section 540.806 Rulemaking.

(a) All rules and other public documents are issued by the Secretary of the Treasury upon recommendation of the Director of the Office of Foreign Assets Control. Except to the extent that there is involved any military, naval, or foreign affairs function of the United States or any matter relating to agency management or personnel or to public property, loans, grants, benefits, or contracts and except when interpretative rules, general statements of policy, or rules of agency organization, practice, or procedure are involved or when notice and public procedure are impracticable, unnecessary or contrary to the public interest, interested persons will be afforded an opportunity to participate in rulemaking through submission of written data, views, or arguments, with oral presentation in the discretion of the Director. In general, rulemaking by the Office of Foreign Assets Control involves foreign affairs functions of the United States. Wherever possible, however, it is the practice to hold informal consultations with interested groups or persons before the issuance of any rule or other public document.

(b) Any interested person may petition the Director of the

Office of Foreign Assets Control in writing for the issuance, amendment or repeal of any rule.

Section 540.807 Delegation by the Secretary of the Treasury.

Any action which the Secretary of the Treasury is authorized to take pursuant to Executive Order 12513 or the International Emergency Economic Powers Act may be taken by the Director, Office of Foreign Assets Control, or by any other person to whom the Secretary of the Treasury has delegated authority so to act.

Section 540.808 Customs procedures: merchandise specified in Section 540.204.

(a) With respect to merchandise specified in Section 540.204 appropriate Customs officers shall not accept or allow any:

(1) Entry for consumption or warehouse (including any appraisement entry, any entry of goods imported in the mails, regardless of value, and any informal entries);

(2) Entry for immediate exportation;

(3) Entry for transportation and exportation;

(4) Withdrawal from warehouse;

(5) Entry, transfer or withdrawal from a foreign trade zone; or

(6) Manipulation or manufacture in a warehouse or in a foreign trade zone, unless either:

(i) The merchandise was imported prior to 12:01 a.m., May 7, 1985, or

(ii) A specific license pursuant to this part is presented, or

(iii) Instructions from the Office of Foreign Assets Control, either direct or through the Federal Reserve Bank of New York, authorizing the transaction are received.

(b) Whenever a specific license is presented to an appropriate Customs officer in accordance with this section, one additional legible copy of the entry, withdrawal or other appropriate document with respect to the merchandise involved shall be filed with the appropriate Customs officers at the port where the transaction is to take place. Each copy of any such entry, withdrawal or other appropriate document, including the additional copy, shall bear plainly on its face the number of the license pursuant to which it is filed. The original copy of the specific license shall be presented to the appropriate Customs

officers in respect of each such transaction and shall bear a notation in ink by the licensee or person presenting the license showing the description, quantity and value of the merchandise to be entered, withdrawn or otherwise dealt with. This notation shall be so placed and so written that there will exist no possibility of confusing it with anything placed on the license at the time of its issuance. If the license in fact authorizes the entry, withdrawal or other transaction with regard to the merchandise the appropriate Customs officer, or other authorized Customs employee, shall verify the notation by signing or initialing it after first assuring himself that it accurately describes the merchandise it purports to represent. The license shall thereafter be returned to the person presenting it and the additional copy of the entry, withdrawal or other appropriate document shall be forwarded by the appropriate Customs officer to the Office of Foreign Assets Control.

(c) Whenever a person shall present an entry, withdrawal or other appropriate document affected by this section and shall assert that no specific Foreign Assets Control license is required in connection therewith, the appropriate Customs officer shall withhold action thereon and shall advise such person to communicate directly with the Federal Reserve Bank of New York, Foreign Assets Control Division, to request that instructions be issued to the Customs officer to authorize him to take action with regard thereto.

Section 540.809 Rules governing availability of information.

(a) The records of the Office of Foreign Assets Control which are required by 5 U.S.C. 554 to be made available to the public shall be made available in accordance with the definitions, procedures, payment of fees, and other provisions of the regulations on the Disclosure of Records of the Office of the Secretary and of other bureaus and offices of the Department issued under 5 U.S.C. 552 and published as Part 1 of this Title 31 of the Code of Federal Regulations, 32 FR 9562, July 1, 1967.

(b) Any application form issued for use in connection with the Nicaraguan Trade Control Regulations may be obtained in person or by writing to the Office of Foreign Assets Control, Treasury Department, Washington, D.C. 20220, or the Foreign Assets Control Division, Federal Reserve Bank of New York, 33 Liberty Street, New York, N.Y. 10045.

[AUTHORITY: Section 201-207, 91 Stat. 1626, 50 U.S.C. 1701-1706; E.O. 12513]

Dated: ____________

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Dennis M. O'Connell

Director

Office of Foreign Assets Control

Approved: ____________________

John M. Walker, Jr.

Assistant Secretary

Enforcement & Operations

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
85-
1843

May 6, 1985

MEMORANDUM FOR ROBERT M. KIMMITT
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

SUBJECT: Foreign Assets Control Regulations to Implement the Nicaraguan Sanctions

Pursuant to your request, attached are the proposed regulations that are intended to implement the sanctions against the Government of Nicaragua that President Reagan ordered on May 1, 1985.

Please note that time is of the essence in achieving clearance for the regulations or in redrafting them to reflect any policy changes. Inasmuch as the sanctions are to become effective tonight at 12:01 a.m., EDT, May 7, the speediest possible decision will contribute to the smooth and fair implementation of them.

Edward J. Stucky
Edward J. Stucky
Acting Executive Secretary

Attachment

(2) All transactions are authorized with respect to the import of services of Nicaraguan origin after the effective date under a binding contract entered into prior to May 1, 1985

Section 540.505 Prior contractual commitments.

under a binding contract entered into prior to May 1, 1985

(b) All transactions are authorized with respect to the import of goods arriving in the United States after the effective date if the following conditions are met:

(1) F.A ~~Imports~~ through May 31, 1985, st ~~if~~ the importer, freight forwarder, or other authorized person (hereinafter "the importer") certifies to the U.S. Customs Service that the goods are imported under a binding contract entered into prior to May 1, 1985.

(2) F.A ~~Imports~~ from June 1, 1985 through October 31, 1985, st. ~~if~~ the importer makes the following sworn certification to Customs:

In accordance with the provisions of the Nicaraguan Trade Control Regulations, I, being duly authorized to make this certification on behalf of [firm name], do hereby certify that the goods to which this certification pertains are imported under ~~pursuant to~~ a binding contract entered into prior to May 1, 1985.

(Signature)

(Notarial Seal)

under binding contract entered into prior to May 1, 1985

c (~~b~~) All transactions are authorized with respect to the export of goods from the United States after the effective date if the following conditions are met:

(1) For ~~E~~xports through May 31, 1985, if the exporter, freight forwarder, or other authorized person (hereinafter "the exporter") certifies to the U.S. Customs Service that the goods are imported under a binding contract entered into prior to May 1, 1985.

(2) For ~~E~~xports from June 1, 1985 through October 31, 1985, if the exporter makes the following sworn certification to Customs:

In accordance with the provisions of the Nicaraguan Trade Control Regulations, I, being duly authorized to make this certification on behalf of [firm name], do hereby certify that the goods to which this certification pertains are exported under ~~pursuant to~~ a binding contract entered into prior to May 1, 1985.

(Signature)

(Notarial Seal)

d (~~e~~) Licenses for exports of U.S. goods or imports of Nicaraguan goods after October 31, 1985, will be considered on a

Page Denied

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